

Annual Report and Accounts 1998

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Realkredit Danmark

Supervisory Board

Jørgen Nue Møller
Chairman

Poul Christiansen
Deputy Chairman

Niels Busk

Bo Klein Christensen*

Bent Flyvholm

Cristina Lage Hansen

Carl Emil Heidemann*

Flemming Skov Jensen

André Lublin

Jørgen Lund

Jørgen Mejlgård

Klaus Modberg*

Peder J. Pedersen**

Per Alling Toubro*

Hans-Erik Voldstedlund*



Back row from the left:
*Hans-Erik Voldstedlund,
André Lublin,
Jørgen Mejlgård,
Jørgen Nue Møller,
Flemming Skov Jensen,
Carl Emil Heidemann,
Klaus Modberg,
Peder J. Pedersen.*

Front row from the left:
*Niels Busk,
Jørgen Lund,
Bent Flyvholm,
Cristina Lage Hansen,
Per Alling Toubro,
Bo Klein Christensen,
Poul Christiansen.*

Executive Board

Kjeld Jørgensen
Chairman and
Chief Executive Officer

Sven Holm
Vice-Chairman

Per Helle



Per Helle, Kjeld Jørgensen, Sven Holm.

* Employee elected representatives

** Appointed by the Ministry of Economic Affairs

Offices held with other Danish companies by members of the Supervisory Board and Executive Board are shown on pages 4 and 5.

Senior Management

Region Central Jutland

Peter Kjølby
Regional Director

Region North

Ib Nielsen
Regional Director

Region South

Peter Cederfeld
Regional Director

Region East

Jens-Erik Corvinius
Regional Director

Claus Hansen
Deputy Regional Director

Customer Line

Mogens Sandahl
Director

Company Secretariat

Finn Bartholdy
Director

Subsidised and Private Residential Rental Property Division

Bent Fjord
Director

Corporate Division

Jørgen Bo Andersen
Director

Treasury and Markets

Sven-Karsten Topp
Director

Credit Division

H.P. Hansen
Director

Agricultural Division

Erik Vestergaard Madsen
Director

Retail Division and Marketing

Thomas Dywremose
Director

Internal Audit

Arne Lenstrup
Chief Auditor

home a/s

Niels Bjerregaard
Executive Director

The following head office departments: Finance, Legal Department, IT, Human Resources and Administration and Property are organised in Kapital Service A/S, while Information and Public Relations is organised in Kapital Holding A/S.

Major Directorships

SUPERVISORY BOARD

Jørgen Nue Møller (born in 1944) Chairman
Chief Executive of the Foundation Dansk Arkitektur Center
Offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Chairman of the Supervisory Board of Kapital Holding A/S
Chairman of the Supervisory Board of Carl Bro as

Poul Christiansen (born in 1937) Vice-Chairman
Carpenter
Offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Vice-Chairman of the Supervisory Board of Kapital Holding A/S
Member of the Supervisory Board of A/S Hindsgavl

Niels Busk (born in 1942)
Farmer
Offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Aktie-Plantageselskabet for Aalborg Amt
Member of the Supervisory Board of Kapital Holding A/S

Bo Klein Christensen (born in 1959) (employee representative)
Manager
Offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Kapital Holding A/S

Bent Flyvholm (born in 1937)
Business Manager of Boligkontoret, a residential property company
Offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Kapital Holding A/S

Jørgen Lund (born in 1935)
Alderman, the Municipality of Odense
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Chairman of the Supervisory Board of Rynkeby Maskinfabrik A/S
Member of the Supervisory Board of Kapital Holding A/S

Jørgen Mejlgård (born in 1946)
Director of Fællesorganisationernes Boligforening
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of A/S Bolind-Handel
Member of the Supervisory Board of Kapital Holding A/S

Klaus Modberg (born in 1960) (employee representative)
Assistant Manager
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Kapital Holding A/S

Peder J. Pedersen (born in 1941)
(appointed by the Minister of Economic Affairs)
Professor of Economics at the University of Aarhus, D.Sc.(Econ), M.A.(Econ)
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
None

Per Alling Toubro (born in 1953) (employee representative)
Manager
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Kapital Holding A/S

Hans-Erik Voldstedlund (born in 1937) (employee representative)
Customer Adviser
Other offices held with other Danish public limited companies
other than wholly-owned subsidiaries:
Member of the Supervisory Board of Kapital Holding A/S

Cristina Lage Hansen (born in 1954)

Director of the Louisiana Art Museum

Offices held with other Danish public limited companies other than wholly-owned subsidiaries:

Member of the Supervisory Board of A/S Dansk Erhvervsinvestering af 3/9 1983

Member of the Supervisory Board of Bus Danmark A/S

Member of the Supervisory Board of Gyldendals Boghandel, Nordisk Forlag Aktieselskab

Member of the Supervisory Board of Kapital Holding A/S

Member of the Supervisory Board of Scandlines A/S

Member of the Supervisory Board of Superfos a/s

Carl Emil Heidemann (Born in 1944) (employee representative)

Customer Adviser

Other offices held with other Danish public limited companies other than wholly-owned subsidiaries:

Member of the Supervisory Board of Kapital Holding A/S

Flemming Skov Jensen (born in 1941)

Managing Director of LD Pensions

Other offices held with other Danish public limited companies other than wholly-owned subsidiaries:

Chairman of the Supervisory Board of Helsingør Fællesbageri A/S

Member of the Supervisory Board of A/S Danske Erhvervsinvestering af 3/9 1983

Member of the Supervisory Board of Dansk Industri Invest A/S

Member of the Supervisory Board of ID Spar Invest A/S

Member of the Supervisory Board of Kapital Holding A/S

Member of the Supervisory Board of Kelsen The International Bakery A/S

Member of the Supervisory Board of Lån og Spar Bank A/S

André Lublin (born in 1940)

Managing Director of PFA Pension, forsikringsaktieselskab

Other offices held with other Danish public limited companies other than wholly-owned subsidiaries:

Member of the Supervisory Board of A/S Assurandørernes Hus

Member of the Supervisory Board of Kapital Holding A/S

Member of the Supervisory Board of Lærernes Pension, forsikringsaktieselskab

Member of the Supervisory Board of NES A/S

EXECUTIVE BOARD**Kjeld Jørgensen** (born in 1942)

B.Com (Business Finance)

Chairman of the Executive Board and Chief Executive Officer of Foreningen RealDanmark

Vice-Chairman of the Executive Board of Kapital Holding A/S

Chairman of the Supervisory Board of BG Kredit A/S

Chairman of the Supervisory Boards of home a/s and home i/s

Member of the Supervisory Board of Kapital Service A/S

Member of the Supervisory Board of the Association of Danish Mortgage Banks

President of Nordisk Realkreditsamråd

Sven Holm (born in 1946)

B.Com (Business Finance)

Vice-Chairman of the Executive Board of Foreningen RealDanmark

Vice-Chairman of the Supervisory Board of Kapital Service A/S

Member of the Supervisory Board of BG Kredit A/S

Member of the Supervisory Boards of home a/s and home i/s

Member of the Supervisory Board of MæglerService Danmark A/S

Member of the Supervisory Board of the Association of Danish Mortgage Banks

Member of the Supervisory Board of Kreditforeningen Danmarks

Pensionsafviklingskasse

Per Helle (born in 1937)

Banker

Member of the Executive Board of Foreningen RealDanmark

Chairman of the Supervisory Board of MæglerService Danmark A/S

Member of the Supervisory Board of BG Kredit A/S

Member of the Supervisory Boards of home a/s and home i/s

Member of the Supervisory Board of Kapital Service A/S

Member of the Supervisory Board of Realkreditnettet A/S

Member of the Supervisory Board and Assembly of Representatives of the Employers' Association for the Financial Sector in Denmark

Member of the Supervisory Board of Kreditforeningen Danmarks

Pensionsafviklingskasse

Deputy Chairman of Dansk Dataforening

Group Structure

Foreningen RealDanmark

Copenhagen

Kapital Holding A/S

Copenhagen

61% Foreningen RealDanmark

Realkredit Danmark A/S

Copenhagen

Share capital: DKK 500 million

Shareholders' equity: DKK 15,309 million

Wholly owned

BG Kredit A/S

Copenhagen

Share capital: DKK 600 million.

Shareholders' equity: DKK 750 million

51% Realkredit Danmark A/S

49% BG Bank A/S

home a/s

Aarhus

Share capital: DKK 10 million

Shareholders' equity: DKK 59 million

Wholly owned

BG Bank A/S

Copenhagen

Wholly owned

home i/s

Aarhus

Share capital: DKK 1.887 thousand

75% Realkredit Danmark A/S

25% home a/s

Mægler-service Danmark A/S

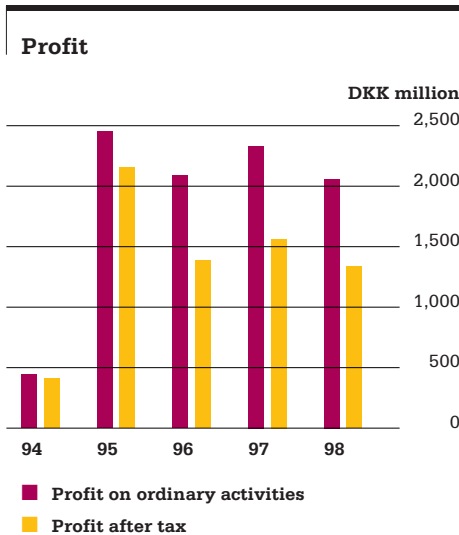
Copenhagen

Share capital: DKK 1 million

Shareholders' equity: DKK 3 million.

Wholly owned

A Brief Résumé



Positive trend continues

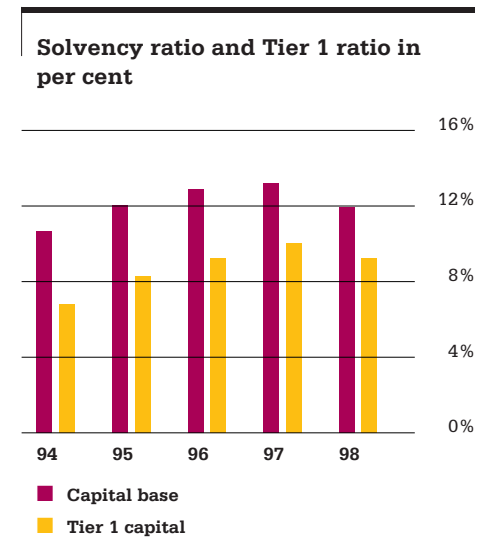
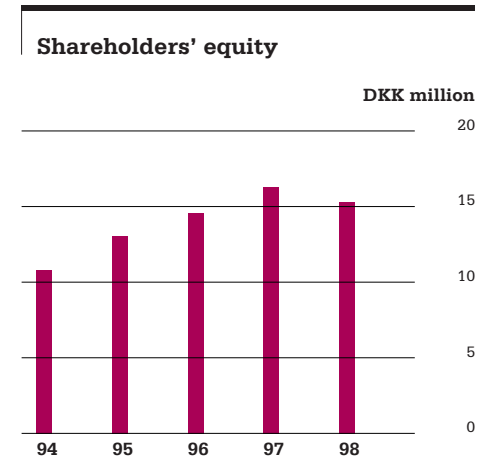
1998 was a significant year for the Realkredit Danmark Group. Through the formation of Kapital Holding, a joint holding company formed with BG Bank, Realkredit Danmark has become a member of Denmark's second-largest financial group. The establishment of Kapital Holding will strengthen the collaboration between Realkredit Danmark and BG Bank, which was started in April 1998 through BG Kredit A/S, the jointly owned mortgage credit company.

The Realkredit Danmark Group posted satisfactory profits in 1998. Profit on ordinary activities amounted to DKK 2,060 million, and profit after tax amounted to DKK 1,335 million.

In spite of the very competitive environment in the financial sector, the loan portfolio was increased by DKK 13.4 billion and stood at DKK 317 billion as at 31 December 1998.

RD strengthened its telephone service in 1998. Customers can call Realkredit Danmark as late as 10 p.m. on Mondays through Thursdays as well as on Sundays.

- Profit on care lending activities amounted to DKK 602 million.
- Value adjustment of securities, foreign exchange adjustments, etc. amounted to DKK 162 million in 1998 against DKK 534 million in 1997.
- Total lending increased by DKK 13.4 billion to DKK 317 billion.
- Market share of gross lending stood at 24.3 per cent
- DKK 99 million was recognised on provisions for bad and doubtful debts compared with DKK 103 million in 1997.
- Shareholders' equity stood to DKK 15,309 million after a provision for dividends to Kapital Holding A/S in the amount of DKK 2,500 million.
- The solvency ratio is 12.0 per cent, which exceeds the statutory requirement by DKK 6,708 billion.



Five-Year Financial Highlights

| | Realkredit Danmark Group | | | | |
|--|--------------------------|----------------|----------------|----------------|----------------|
| Amounts in DKK million | 1998 | 1997 | 1996 | 1995 | 1994 |
| Summary of profit and loss account | | | | | |
| Net interest and fee income | 2,932 | 2,707 | 2,663 | 2,833 | 4,059 |
| Value adjustment of securities and foreign exchange | 162 | 534 | 455 | 811 | (1,651) |
| Other operating income | 113 | 100 | 90 | 100 | 106 |
| Profit on financial operations | 3,207 | 3,341 | 3,208 | 3,744 | 2,514 |
| Administrative expenses, etc. | (1,176) | (1,050) | (950) | (839) | (870) |
| Depreciation of assets | (87) | (67) | (52) | (55) | (49) |
| Provisions for bad and doubtful debts | 99 | 103 | (103) | (390) | (1,127) |
| Value adjustment of participating interests | 17 | 5 | (13) | (5) | (22) |
| Profit/loss on ordinary activities | 2,060 | 2,332 | 2,090 | 2,455 | 446 |
| Extraordinary items | (63) | (55) | (210) | (10) | (44) |
| Profit/loss before tax | 1,997 | 2,277 | 1,880 | 2,445 | 402 |
| Tax | (662) | (714) | (493) | (291) | 7 |
| Minority interests | – | – | – | – | – |
| Net profit/loss | 1,335 | 1,563 | 1,387 | 2,154 | 409 |
| Summary of balance sheet | | | | | |
| Assets: | | | | | |
| Cash in hand and amounts due from other credit institutions | 19,243 | 17,463 | 16,832 | 23,161 | 14,145 |
| Loans | 318,071 | 305,018 | 295,044 | 292,623 | 293,372 |
| Securities portfolio | 36,956 | 27,511 | 21,358 | 16,674 | 20,869 |
| Other assets | 2,231 | 1,936 | 1,600 | 1,988 | 2,584 |
| Total assets | 376,501 | 351,928 | 334,834 | 334,446 | 330,970 |
| Liabilities: | | | | | |
| Amounts due to other credit institutions | 6,548 | 1,229 | 626 | 2,788 | 1,647 |
| Mortgage credit bonds and other securities issued against mortgages on real property | 338,890 | 321,856 | 307,516 | 305,194 | 304,428 |
| Other liabilities | 12,386 | 9,526 | 9,101 | 10,404 | 11,083 |
| Subordinated loan capital | 3,368 | 3,000 | 3,000 | 3,000 | 3,000 |
| Shareholders' equity | 15,309 | 16,317 | 14,591 | 13,060 | 10,812 |
| Total liabilities | 376,501 | 351,928 | 334,834 | 334,446 | 330,970 |

Key figures

Solvency ratio and Tier 1 ratio, per cent:

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Solvency ratio (Tier 1+2) ¹⁾ | 11.953 | 13.175 | 12.894 | 12.027 | 10.661 |
| Tier 1 ratio | 9.229 | 10.005 | 9.217 | 8.274 | 6.774 |
| Return on equity | 8.4 | 10.1 | 10.0 | 18.0 | 4.1 |
| Profit on core lending activities | 602 | 646 | 539 | 493 | 250 |
| Income/cost ratio | 1.43 | 1.52 | 1.68 | 2.09 | 2.67 |
| Administrative expenses etc. in per cent of outstanding debt on mortgage bonds | 0.40 | 0.37 | 0.34 | 0.31 | 0.31 |
| Provisions for bad and doubtful debts in per cent of outstanding debt on mortgage bonds | (0.03) | (0.03) | 0.04 | 0.13 | 0.38 |
| New lending ²⁾ , nominal value | 44,941 | 39,534 | 31,779 | 22,871 | 29,857 |
| Total number of loans | 654,000 | 709,000 | 762,000 | 839,000 | 917,000 |
| Average number of employees converted to full-time jobs | 1,396 | 1,360 | 1,258 | 1,202 | 1,367 |

1) Solvency ratio calculated in accordance with Section 53 (1) of the Danish Mortgage Credit Act.

2) Gross lending less redemptions in connection with new loans in Realkredit Danmark.

Group Annual Report

1998 was a significant year for the Realkredit Danmark Group. Through the formation of Kapital Holding, a joint holding company formed with BG Bank, Realkredit Danmark has become a member of Denmark's second-largest financial group. With a market share of just over 30 per cent of total mortgage lending, RD is a major player in the Danish mortgage credit market.

Realkredit Danmark's activity level was higher in 1998 than in 1997, and RD was able to handle a growing number of customer transactions in several ways. First of all, RD's telephone advisory services were strengthened, and customers can call Realkredit Danmark as late as 10 p.m. on Mondays through Thursdays as well as on Sundays. In addition, RD's website was modernised, resulting in an increase in the number of users who contact RD through the Internet.

Summary of profit and loss account Realkredit Danmark Group

| Amounts in DKK million | 1998 | 1997 |
|---|--------------|--------------|
| Net interest and fee income | 2,932 | 2,707 |
| Market value adjustment of securities, foreign exchange, etc. | 162 | 534 |
| Other operating income | 113 | 100 |
| Profit on financial operations | 3,207 | 3,341 |
| Operating expenses including depreciation | (1,263) | (1,117) |
| Provisions for bad and doubtful debts | 99 | 103 |
| Value adjustment of participating interests | 17 | 5 |
| Profit on ordinary activities | 2,060 | 2,332 |
| Extraordinary items | (63) | (55) |
| Tax | (662) | (714) |
| Minority interests | – | – |
| Net profit | 1,335 | 1,563 |

RD's product development continued in 1998, resulting in a number of new products including euro-denominated loans. Every type of loan denominated in Danish kroner currently offered by RD to the broad market will be offered in the euro. The first signs of interest in the new euro-denominated loans appeared already at the end of the year.

Group profit for the year

Although competition in the financial sector remains keen, the Realkredit Danmark Group increased its total lending for the third consecutive year. In 1998, total lending increased by DKK 13.4 billion. Group profit on ordinary activities was satisfactory at DKK 2,060 million.

Pre-tax profit amounted to DKK 1,997 million. This profit is in line with the profit which was forecast in the interim accounts for the six months to 30 June 1998.

The Realkredit Danmark Group posted a profit after tax of DKK 1,335 million against DKK 1,563 million in 1997. The profit was affected by a lower profit on securities activities, higher income from lending activities and increased product development and administrative expenses.

Net interest and fee income increased by DKK 225 million to DKK 2,932 million. DKK 86 million of this increase was attributable to increased income from lending.

Value adjustment of securities, foreign exchange adjustments, etc. amounted to DKK 162 million in 1998 against DKK 534 million in 1997.

The growing activity in the mortgage credit market led to a need for new staff, mainly in customer-service positions. Converted into full-time equivalents, RD's staff increased from 1,360 in 1997 to 1,396 in 1998, 24 of whom were employed in BG Kredit. In addition, large resources were used for product development, including the development of euro-denominated loan products, which led to an increase in the group's total operating expenses by 13 per cent to DKK 1,263 million.

An income of DKK 99 million was recognised against provisions for bad and doubtful debts, corresponding to the amount recognised in 1997. The amount does not reflect the actual loss level as it is attributable to the recovery of DKK 67 million written off in previous years and to movements in provisions. Provisions of DKK 92 million were reversed in 1998 in connection with the final settlement of non-performing loans, while recognised losses and provisions on other facilities amounted to a charge of DKK 85 million. This brought accumulated provisions for bad and doubtful debts to DKK 788 million as at 31 December 1998, equivalent to 0.25 per cent of total lending. As at 31 December 1997, this figure was 0.32 per cent. The RD Group held 22 repossessed properties as at 31 December 1998 – the lowest number in many years.

Net extraordinary expenses amounted to DKK 63 million, of which DKK 57 million is a write-down of own properties.

In 1998, DKK 662 million was allocated for tax compared with DKK 714 million in 1997.

Profit for the year after extraordinary expenses and tax amounted to DKK 1,335 million.

Shareholders' equity and solvency

As the joint holding company of Realkredit Danmark A/S and BG Bank A/S, Kapital Holding A/S intends to pursue a dividend policy which will ensure that Realkredit Danmark's Tier 1 ratio is approximately 9 per cent and that BG Bank's Tier 1 ratio is approximately 8 per cent. As a consequence of this policy, Realkredit Danmark's Supervisory Board intends to recommend to the Annual General Meeting that a dividend of DKK 2,500 million be paid. The recommendation has been adopted by the Supervisory Board of Foreningen RealDanmark, cf. article 13.2 of the Bylaws. This will bring shareholders' equity to DKK 15,309 million, against DKK 16,317 million as at 31 December 1997.

The total capital base amounted to DKK 20,284 million. The statutory capital requirement was 13,576 million, and the Realkredit Danmark Group's capital base therefore exceeded the statutory requirement by DKK 6,708 million as at 31 December 1998. Accordingly, the RD Group had a Solvency ratio of 12.0 per cent against 13.2 per cent at the end of 1997. This met the statutory solvency ratio requirement of 8 per cent.

The group's Tier 1 capital amounted to DKK 15,662 million, corresponding to a Tier 1 ratio of 9.2 per cent. Realkredit Danmark A/S' Tier 1 capital amounted to DKK 15,298 million, corresponding to a Tier 1 ratio of 9.0 per cent.

The inclusion of joint and several liability in the calculation of the capital base is being phased out over the coming years and will be discontinued entirely in 2001.

Shareholders' equity

| Amounts in DKK million | 1998 | 1997 |
|---|-----------------|-----------------|
| Shareholders' equity at beginning of year | 16,317.1 | 14,590.7 |
| Profit | 1,335.2 | 1,563.0 |
| Allocated to reserves as per statement of profit allocation | 156.9 | 163.4 |
| Dividend to Kapital Holding A/S | (2,500.0) | – |
| Shareholders' equity at year end | 15,309.2 | 16,317.1 |

Solvency

| Amounts in DKK million | 1998 | 1997 |
|---|-----------------|-----------------|
| Capital base (tier 1 + 2) | 20,284.3 | 21,480.2 |
| Capital requirement | 13,576.3 | 13,043.5 |
| Capital in excess of requirement | 6,708.0 | 8,436.7 |
| Solvency ratio (tier 1 + 2) | | |
| – Capital base | 11.953% | 13.175% |
| – Tier 1 capital | 9.229% | 10.005% |

Mortgage lending

| Amounts in DKK million | 1998 | 1997 |
|--|----------------|----------------|
| Outstanding debt on mortgage bonds at beginning of year | 304,072 | 293,474 |
| Gross lending | 89,746 | 67,565 |
| Redemptions with refinancing | (44,805) | (28,031) |
| New lending | 44,941 | 39,534 |
| Redemptions without refinancing | (20,802) | (19,117) |
| Net new lending | 24,139 | 20,417 |
| Ordinary repayments | (11,877) | (11,109) |
| Indexation, etc. | 1,157 | 1,290 |
| Movements in lending | 13,419 | 10,598 |
| Outstanding debt on mortgage bonds at year end | 317,491 | 304,072 |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

Distribution of loan portfolio by market segment

| Percentage distribution | 1998 | 1997 |
|--|------------|------------|
| Private market | 54 | 53 |
| Subsidised residential rental property | 21 | 22 |
| Private residential rental property | 6 | 6 |
| Industry and skilled trades | 3 | 3 |
| Agriculture | 6 | 5 |
| Service trades | 10 | 11 |
| Total | 100 | 100 |

Mortgage credit activities

With a market share of just over 30 per cent of the total mortgage credit market, Realkredit Danmark is a major player in the Danish financial market.

The activity level in 1998 was higher than in 1997. As at 31 December 1998, the loan portfolio totalled DKK 317.5 billion. The loan portfolio increased by DKK 13.4 billion, of which DKK 5.3 billion represents loans provided by BG Kredit.

The Realkredit Danmark Group's gross lending amounted to DKK 89.7 billion, corresponding to a market share of 24.3 per cent. Net of redemptions of DKK 65.6 billion, net new lending totalled DKK 24.1 billion, which was DKK 3.7 billion more than in 1997. The group's market share of net new lending was 22.7 per cent in 1998.

Only minimal shifts occurred between individual market shares compared with the loan portfolio as at 31 December 1997.

Gross lending to residential property amounted to DKK 67.3 billion, equivalent to 75 per cent of gross lending. This is an increase of DKK 19.3 billion compared with 1997.

Gross lending to the corporate sector increased by DKK 2.8 billion to a total of DKK 22.4 billion, corresponding to 25 per cent.

Profit on core lending activities for 1998 amounted to DKK 602 million, which is satisfactory. Profit on core lending activities in 1997 amounted to DKK 646 million.

Profit on mortgage credit activities Realkredit Danmark A/S

| Amounts in DKK million | 1998 | 1997 |
|--|--------------|--------------|
| Income from lending activities | 1,680 | 1,594 |
| Administrative expenses | (1,177) | (1,048) |
| Profit on lending activities before provisions for bad and doubtful debts | 503 | 546 |
| Provisions for bad and doubtful debts | 99 | 100 |
| Profit on core lending activities | 602 | 646 |
| Net interest and value adjustment of securities and foreign exchange | 1,563 | 1,828 |
| Shares disbursed in pre-1972 series | (156) | (185) |
| Estate agency activities | 5 | 4 |
| Other items | (18) | (19) |
| Profit before tax | 1,996 | 2,274 |
| Tax | (661) | (711) |
| Net profit | 1,335 | 1,563 |

Establishment of Kapital Holding A/S

Realkredit Danmark established a joint holding company with BG Bank in 1998, Kapital Holding A/S, through a merger of RealDanmark Holding A/S and BG Holding A/S. The new group is a major player in the personal customer and residential property markets. Both BG Bank and Realkredit Danmark have leading positions in the personal customer market in Denmark.

Realkredit Danmark's and BG Bank's partnership is not a conventional merger in which two companies are being merged into one. Under the umbrella of Kapital Holding A/S, both parties continue to operate as independent companies – each under its own name.

Realkredit Danmark will therefore remain in the market as a specialised mortgage lender. RD's and BG Bank's customers will have the same freedom of choice as they have always had.

There will be no cross-selling on the basis of the two companies' customer bases, and RD will continue to use three channels of distribution, i.e. direct sales through branch offices and supply of mortgage loans through estate agents and banks.

The establishment of Kapital Holding A/S will give RD and BG Bank a capital strength and business volume which will make both parties stronger in the increasingly competitive and rapidly changing financial sector. Overall, the parties believe that Kapital Holding holds significant potential for growth. In addition, certain head office functions will be merged to ensure rational operation and to reduce costs.

The holding company merger was adopted at Extraordinary General Meetings of Realkredit Danmark and BG Bank in October 1998. The establishment of Kapital Holding strengthens the collaboration between Realkredit Danmark and BG Bank, which was started in April 1998 through BG Kredit A/S, the jointly owned – and very successful – mortgage credit company.

Rating

In late 1997, Moody's Investors Service Limited rated close to 70 per cent of Realkredit Danmark's bonds and assigned a rating of Aa3, which remained the same in 1998. The rating reflects Moody's assessment of the high level of security behind RD's bonds.

Customers

Customer service, accessibility and advisory services are important elements in the relationship between Realkredit Danmark and its customers. RD's goal is to be the mortgage credit institution known for innovation and for constant development of new products which benefit customers. Therefore, RD offers customers options which satisfy individual borrowing requirements.

RD transferred a significant number of employees to its call centre in 1998. The service is called the Customer Line, and the staff answers customer calls on the telephone and on the Internet. The call centre employs almost 70 employees, who answer about 50 per cent of all enquiries from personal customers. This gives staff at the branch offices more time to serve customers who come into the offices and to visit customers whose property is to be valued. From 1 March 1999, customers will have the possibility of meeting with staff from RD's branch offices on Mondays through Thursdays as late as 7:00 p.m. The meeting can take place either at the branch office or at customers' homes.

In response to the growing use of the Internet, Realkredit Danmark is developing its Internet service in an ongoing process. RD's website was improved in 1998, and it now offers customers the option to calculate what a new loan would cost and whether refinancing would be cost effective. Customers can also calculate the effect of the Danish Government's latest fiscal reform package. In addition, RD's Internet website contains an option for customers to buy and sell RD-bonds at prices which make it attractive to trade even small amounts.

Interest-reset loans patented

Realkredit Danmark has filed an application for a European patent for the formulas underlying interest-reset loans, which RD markets under the name of FlexLån®. In the autumn of 1998, the European Patent Office (EPO) granted a preliminary approval of the patent application. Against this background, Realkredit Danmark expects that a patent will be granted in the near future.

Euro-denominated loans

Stage three of EMU, the Economic and Monetary Union, was implemented on 1 January 1999. In this connection, the conversion rates of the currencies of the eleven EU member states participating in EMU were finally locked in, and the euro was introduced as a new common currency of the EMU member states.

Four EU member states are not participating in stage three of EMU from the beginning. They are Denmark, Sweden and the United Kingdom, which have opted out for political reasons, and Greece which does not yet meet the economic requirements.

To be able to benefit from the new market opportunities, Realkredit Danmark developed new euro-denominated products in 1998 to extend its existing product range to include mortgage credit products denominated in the euro from the transition to stage three – irrespective of Denmark's decision to opt out of stage three.

On the lending side, this means that since 5 January 1999, RD has been offering both conventional, fixed-interest, callable mortgage loans and FlexLån® denominated in the euro. Fundamentally, the terms and conditions of euro-denominated products are very similar to the terms and conditions of RD's existing products denominated in Danish kroner. RD offers both ten-year and thirty-year callable loans denominated in the euro as well as fixed-term or variable-term FlexLån® denominated in the euro with the interest reset profiles known from loans denominated in kroner.

On the funding side, Realkredit Danmark started issuing both long-term, callable euro-denominated bonds and short-term, non-callable euro-denominated bullet bonds on 5 January 1999. The bonds are listed on the Copenhagen Stock Exchange and registered at the Danish Securities Centre (Værdipapircentralen).

Year 2000 compliance

The Realkredit Danmark Group is dependent on well-functioning IT systems and procedures, and the group is therefore dependent on identifying and solving any Year 2000 problems in time.

Consequently, substantial resources have been spent on identifying any errors and omissions. To date, the debugging and testing of RD's IT systems has progressed as expected, which gives reason to believe that all major errors and omissions in the group's systems have been identified. The final debugging and testing will be completed in due time before the end of 1999. Moreover, RD will be participating in the planned test for the financial sector to ensure that the industry, as a whole, will be able to handle the Year 2000 problem.

Regardless of the fact that the aggregate Year 2000 issues are expected to be solved in due time, RD will prepare contingency plans for all major areas to ensure that any errors or omissions do not materially affect the operations of the group.

Outlook

The Realkredit Danmark Group expects a pre-tax profit of approximately DKK 1.3 billion in 1999. This outlook is based on a continued low level of provisions for bad and doubtful debts and an unchanged level of interest rates as compared with the end of 1998.

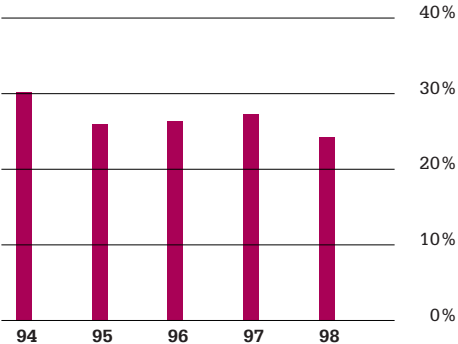
The level of interest rates has a significant effect on RD's profit. A change in average bond rates of one percentage point will increase or decrease the pre-tax profit by approximately DKK 625 million.

Prices and costs continue to be under pressure. Income from lending activities for 1999 is expected to be at the same level as in 1998.

Copenhagen, 1 March 1999

The Mortgage Credit Market

RD's market share of gross lending



Lending activities

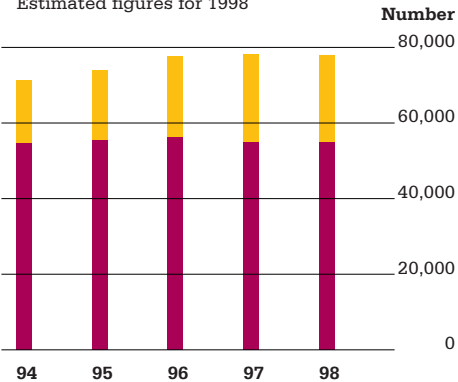
Gross lending by Danish mortgage credit institutions increased by almost 50 per cent from 1997 to 1998 and amounted to DKK 359 billion on a cash basis. The RD Group's share of gross lending was 24.3 per cent. Out of the group's gross lending of DKK 89,6 billion, DKK 5.3 billion came from BG Kredit.

The increased activity in the mortgage credit market was a result of the stable Danish economy and the low interest rate level in 1998.

At the beginning of 1998, the 30-year interest rate, based on 6 per cent mortgage bonds, was 6.6 per cent. The interest rate level for long-term mortgage loans fell during the first six months of the year. The primary reasons were the economic and financial crisis in Asia, which led to greater global interest in and demand for Danish bonds and the stable, low inflation level in Denmark.

Sales of property

Estimated figures for 1998



■ Single-family houses
 ■ Owner-occupied flats

Interest rates were unsteady in the autumn of 1998, partly because the economic and financial crisis had spread to additional financial markets, and partly because of speculation against the Danish krone. Interest rates stabilised again towards the end of the year, and the 30-year interest rate was 6.3 per cent as at 31 December 1998.

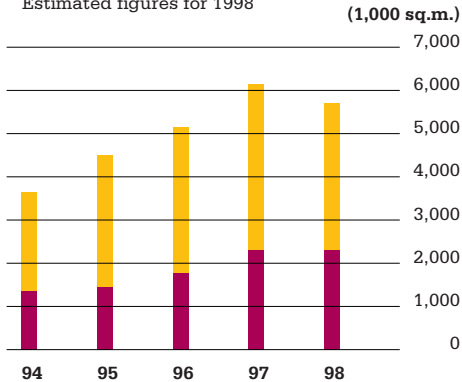
The low interest rate level during the first six months of 1998 resulted in a very high level of remortgaging activity. Many homeowners saw the value of their property increase and took the opportunity to raise supplementary loans. Economic developments caused the Danish Parliament to adopt a fiscal reform package in the spring of 1998, which, among other things, limits the tax value of mortgage interest deductions.

The remortgaging activity continued throughout the summer – both because interest rates remained low and because the new fiscal reform package made it attractive for borrowers to have the lowest possible interest rates. This activity did not decline until in the autumn when interest rates destabilised.

Turnover in the housing market totalled an estimated 78,000 properties in 1998, corresponding to the level in 1997.

New building activity

Estimated figures for 1998



■ Residential
 ■ Factories, etc

Lending to the private market

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|---------------|---------------|
| Gross lending | 56,796 | 39,578 |
| Redemptions with refinancing | (26,718) | (15,154) |
| New lending | 30,078 | 24,424 |
| Redemptions without refinancing | (14,912) | (12,435) |
| Net new lending | 15,166 | 11,989 |
| Net repayments on loan portfolio | (4,733) | (4,598) |
| Movement in loan portfolio | 10,433 | 7,391 |

Redemptions with refinancing = transfers.
Redemptions without refinancing = extraordinary redemptions.

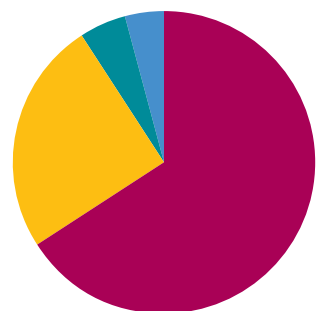
The RD Group's total lending increased by DKK 13.4 billion in 1998. This increase occurred in private residential property, residential rental property, industry and skilled trades, and agriculture. RD's loan portfolio totalled DKK 317.5 billion as at 31 December 1998, equivalent to 30.7 per cent of the Danish mortgage credit market.

In June 1997, the Danish government introduced some restrictions on new building activity to curb the high activity level in the building and construction sector. This resulted in a fall in square metres built in 1998 compared with 1997. The estimated volume of new building activity in 1998 was 5.7 million square metres compared with 6.1 million square metres in 1997.

The private market

Most of the RD Group's lending in 1998 went to private residential customers. Loans to this market totalled DKK 56.8 billion, corresponding to a market share of 25.0 per cent.

Gross lending to the private market by purpose



| | |
|-----------------------------------|-----|
| Remortgaging and home improvement | 66% |
| Change of ownership | 25% |
| Conversion and extension | 5% |
| New building | 4% |

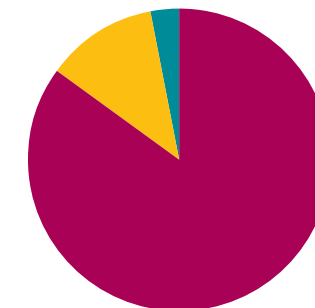
Most of the gross lending in 1998 was remortgaging of existing loans. The low interest rate level and rising property prices gave many homeowners an opportunity to realise their wish of improving and modernising their homes.

As part of RD's advisory concept, customers are offered a choice of three different types of loans – a cash loan, a bond loan and a FlexLån®. The reduction in the interest rate spread between short-term and long-term bonds resulted in declining interest in FlexLån® in 1998.

Developments in prices of owner-occupied homes have a major impact on the volume of lending. The price rises of recent years continued in the first six months of 1998. In the second half of 1998, the new fiscal reform package contributed to a stagnation in property prices.

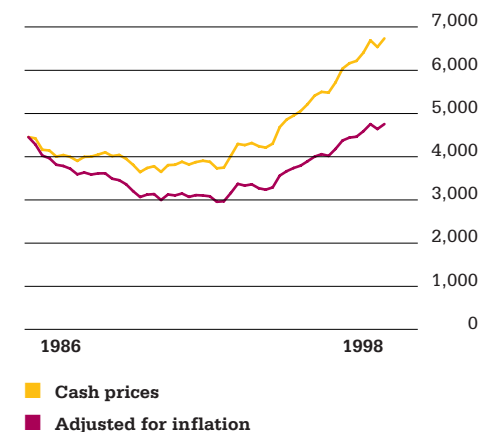
By far the majority of personal customers today contact RD directly. RD provided loans to 88,676 personal customers in 1998. Close to a fifth of the loans were arranged through estate agents in connection with change of ownership. Loans to customers who contacted RD directly and loans arranged through estate agents accounted for 86 per cent of RD's lending to the private residential market. The remaining loans were arranged through banks or other financial advisers.

Gross lending to the private market by loan type 1998



| | |
|------------|-----|
| Bond loans | 85% |
| Cash loans | 12% |
| FlexLån® | 3% |

Cash purchase prices per sq.m. for single-family houses and purchase prices adjusted for inflation



Lending to subsidised residential rental property

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|--------------|--------------|
| Gross lending | 3,938 | 3,442 |
| Redemptions with refinancing | (275) | (128) |
| New lending | 3,663 | 3,314 |
| Redemptions without refinancing | (99) | (236) |
| Net new lending | 3,564 | 3,078 |
| Net repayments on loan portfolio | (2,357) | (2,106) |
| Movement in loan portfolio | 1,207 | 972 |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

Subsidised residential rental property

This area comprises subsidised residential rental property, other subsidised property and new, subsidised cooperative property.

In 1998, RD's gross lending to this segment totalled DKK 3.9 billion, corresponding to a market share of 39.5 per cent.

The Act to Amend the Management and Financing Rules for Subsidised Property came into force on 1 January 1998. The new act eliminated both the budget for and the co-financing by Danish municipalities of subsidies for residential rental property. In addition, the level of municipal basic capital was increased from 7 per cent to the current level of 14 per cent of the approved purchase price.

As a result of these changes, municipal councils were reluctant to make new commitments for the development of subsidised property in 1998.

However, the volume of lending to subsidised residential rental property in 1998 was not affected by these changes, and gross lending amounted to DKK 2.8 billion compared with DKK 2.4 billion in 1997. One to two years normally pass from the time subsidies are committed until disbursement. Accordingly, the new rules are not expected to affect the volume of lending until in 1999 and later. To some extent, this also applies to the effect of the stop to new subsidy commitments implemented in June 1997 which lasted for the remainder of the year.

Rising property prices and the wish of many, especially elderly people, to move to new and smaller homes resulted in a growing demand for new subsidised cooperative housing. Lending to this quota-restricted category of property amounted to DKK 274 million in 1998.

Realkredit Danmark closed its maturity groups of open index-linked bonds on 31 December 1998. This was done to help investors as an amendment to the legislation in the field made index-linked bonds from series in which bonds are still issued after 31 December 1998 liable to real interest taxation.

RD opened a new maturity group of index-linked bonds after the turn of the year to partially replace the maturity groups closed. The new maturity group of index-linked bonds will be subject to real interest tax and will be open for five years.

Private residential rental property

This area comprises private residential rental property and non-subsidised cooperative property.

In 1998, RD's gross lending to this market totalled DKK 6.6 billion, corresponding to a market share of 28.2 per cent.

Lending to this market was affected by the low level of interest rates in large parts of 1998. Many private landlords and cooperative housing societies took the opportunity to refinance their existing loans or took out supplementary loans on the equity in the property. This resulted in a very high level of lending activity.

Gross lending to non-subsidised cooperative housing amounted to DKK 1.5 billion in 1998 compared with DKK 0.9 billion in 1997. Gross lending to private residential rental property amounted to DKK 5.1 billion in 1998 against DKK 4.1 billion in 1997.

Urban renewal

The new Urban Renewal Act consolidates the previous legislation in the fields of private urban renewal and public urban renewal.

Private urban renewal, which covers private residential rental property and cooperative property, is called "agreed home improvement" in the new act. The 1998 quota for this purpose totalled DKK 400 million, corresponding to the quota used in 1997.

What was formerly known as public urban renewal was continued in 1998 under the designation "building renewal" in the new Urban Renewal Act. In addition to private residential rental property, the new Urban Renewal Act also covers subsidised residential rental property and cooperative property.

One of the changes under the new act is that, under certain circumstances, new building activity can also be financed and subsidised under the rules that apply to urban renewal. However, the total investment limit for which finance and subsidies can be provided under the urban renewal rules was reduced to DKK 2 billion for 1998 against DKK 2.5 billion for 1997.

Lending to private residential rental property

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|--------------|--------------|
| Gross lending | 6,571 | 5,031 |
| Redemptions with refinancing | (3,606) | (2,068) |
| New lending | 2,965 | 2,963 |
| Redemptions without refinancing | (1,094) | (944) |
| Net new lending | 1,871 | 2,019 |
| Net repayments on loan portfolio | (659) | (537) |
| Movement in loan portfolio | 1,212 | 1,482 |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

Lending to industry and skilled trades

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|--------------|--------------|
| Gross lending | 3,340 | 3,382 |
| Redemptions with refinancing | (1,618) | (1,845) |
| New lending | 1,722 | 1,537 |
| Redemptions without refinancing | (908) | (1,068) |
| Net new lending | 814 | 469 |
| Net repayments on loan portfolio | (703) | (651) |
| Movement in loan portfolio | 111 | (182) |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

Industry and skilled trades

RD's gross lending to this market segment amounted to DKK 3.3 billion in 1998, corresponding to a market share of 20.3 per cent.

The low interest rates contributed to a high activity level. This and the stable Danish economy had a positive effect on earnings in the sector and contributed to the high level of investment and building activity. However, the good liquidity level in many businesses reduced the need to raise bank loans or mortgage loans to finance these investments.

The low level of interest rates also attracted new customers who wanted to lock in their loans at a fixed long-term interest rate. These customers typically had floating-rate bank loans or mortgage loans with interest reset, but also self-financing companies decided to take advantage of the attractive interest rate level to raise long-term, fixed-interest loans.

Total lending to industry and skilled trades increased by DKK 111 million in 1998. This was satisfactory as it resulted in a stop to the negative trend in the portfolio seen in recent years.

Agriculture

Gross lending to the agricultural sector amounted to DKK 7.8 billion in 1998, corresponding to a market share of 16.0 per cent. The growth in lending is the result of extensive remortgaging as well as financing of investments which were originally self-financed and loans to improve liquidity.

Pig farms suffered a drastic fall in earnings, while cattle farms improved their earnings, however, from a low level. Crop farmers' earnings were somewhat lower owing to low grain prices.

The fall in earnings in agriculture resulted in subdued prices of farm property and a fall in new building and renovation activity. The agricultural sector is going through extensive structural development, and turnover of property is high, i.e. some farms are being sold due to lack of earnings while other farmers acquire farms to get optimum production units.

The fall in earnings in pig farming resulted in extra pressure to obtain liquidity and lower interest payments by refinancing loans into loans with lower instalments.

Lending to agriculture

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|--------------|--------------|
| Gross lending | 7,757 | 5,795 |
| Redemptions with refinancing | (4,453) | (3,247) |
| New lending | 3,304 | 2,548 |
| Redemptions without refinancing | (1,479) | (1,215) |
| Net new lending | 1,825 | 1,333 |
| Net repayments on loan portfolio | (466) | (387) |
| Movement in loan portfolio | 1,359 | 946 |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

The sector shows great interest in new types of loans and combines several loan types to finance investments, refinance existing loans and improve liquidity. FlexLån® as well as the new euro-denominated loans are interesting loan types in this context.

The amendment to the Danish Mortgage Credit Act in 1998 allowed Realkredit Danmark to offer loans secured by farm property within the entire range from 0 to 70 per cent of the property value, including farm equipment and livestock, and without any index-linked loan requirement. This gives the farmer better opportunities to compose optimum mortgage financing.

Lending to service trades

| Amounts in DKK million | 1998 | 1997 |
|-----------------------------------|--------------|--------------|
| Gross lending | 11,344 | 10,337 |
| Redemptions with refinancing | (8,135) | (5,590) |
| New lending | 3,209 | 4,747 |
| Redemptions without refinancing | (2,309) | (3,218) |
| Net new lending | 900 | 1,529 |
| Net repayments on loan portfolio | (1,802) | (1,541) |
| Movement in loan portfolio | (902) | (12) |

Redemptions with refinancing = transfers.

Redemptions without refinancing = extraordinary redemptions.

Service trades

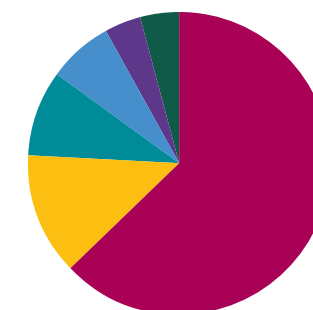
In 1998, gross lending to the service trades amounted to DKK 11.3 billion, and RD's market share was 25.6 per cent. Gross lending increased by 9.7 per cent over the level in 1997.

The fall in interest rates until August resulted in a very high level of activity, both with regard to remortgaging and new lending. This was also the case at the end of the year, when a combination of the coming introduction of the euro and restoration of stability in the bond market resulted in low interest rates. The relatively high growth rate together with the interest rate level contributed to general optimism until the turmoil in the financial markets started in early August. Overall, this situation together with increased demand for premises for service businesses resulted in good building activity and, consequently, in a fair demand for loans.

Customers' high earnings resulted in good liquidity. Consequently, building activity did not always lead to a demand for additional loans. Conversely, the low interest rate level and the narrow spread between short-term and long-term interest rates had the effect that a number of customers took the opportunity to lock in their interest rates for a number of years.

RD's total lending to the service trades fell by DKK 0.9 billion in 1998. The fall should be seen in the light of the keen competition in the market.

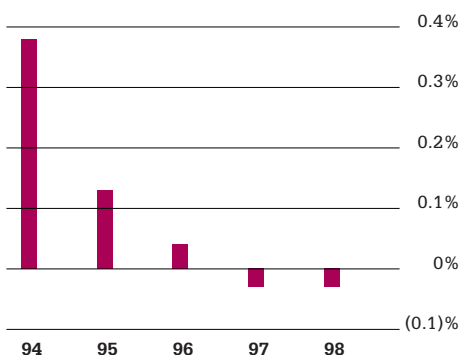
Gross lending by market segment



| | |
|--|-----|
| ■ Private market | 63% |
| ■ Service trades | 13% |
| ■ Agriculture | 9% |
| ■ Private residential rental property | 7% |
| ■ Subsidised residential rental property | 4% |
| ■ Industry and skilled trades | 4% |

Credit Policy and Portfolio Risk

Losses as a percentage of total lending



Provisions for bad and doubtful debts

Provisions for bad and doubtful debts have declined sharply in recent years, and an income of DKK 99 million was recognised in 1998. In 1997, provisions for bad and doubtful debts resulted in an income of DKK 103 million.

The positive developments in loan losses should be seen in the light of the continuing rises in property prices and the high turnover in the market for owner-occupied property. To this should be added that the continued favourable Danish economy resulted in a general improvement of many borrowers' financial position.

The few new losses were offset by income on payment arrangements with customers whose unpaid mortgages resulted in a personal liability towards Realkredit Danmark. In addition, provisions made in prior years were reversed in connection with the settlement of non-performing loans.

There were just over 750 new loss cases in 1998, which led to a total loss of approximately DKK 130 million. Although lending for residential property accounts for 80 per cent of the portfolio, this market segment accounted for less than a third of the loss. The majority of the new losses came from the agricultural sector and the service trades.

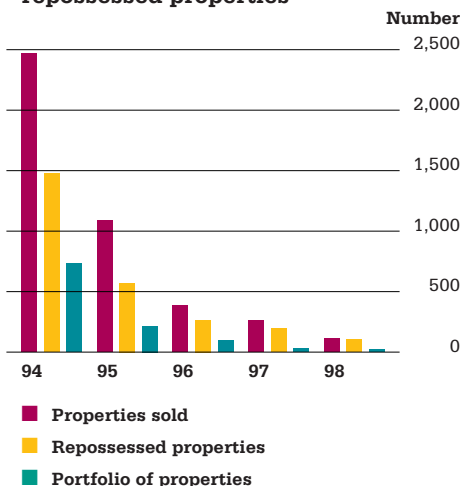
The limited level of losses is also reflected in the portfolio of repossessed properties. During the year, RD repossessed 104 properties and sold 114 properties. This reduced the portfolio to 22 properties as at 31 December 1998. In the early 1990s, the portfolio of properties totalled more than 3,000.

Portfolio risk

The portfolio is very secure as approximately 90 per cent of RD's total portfolio is within 60 per cent of the estimated current value of the properties.

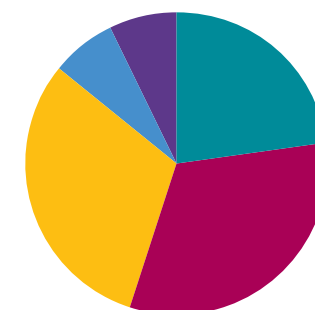
The assessment of the portfolio risk also takes into account that the portfolio is primarily composed of small and medium-sized loans. Therefore, the vulnerability to individual losses is limited. Approximately 90 per cent of the portfolio consists of mortgages with an outstanding debt of less than DKK 10 million. The total exposure to the ten largest customers – excluding housing associations – amounted to approximately DKK 6 billion. This corresponds to less than 2 per cent of RD's total portfolio.

Changes in the portfolio of repossessed properties



Distribution of loan portfolio by outstanding debt intervals

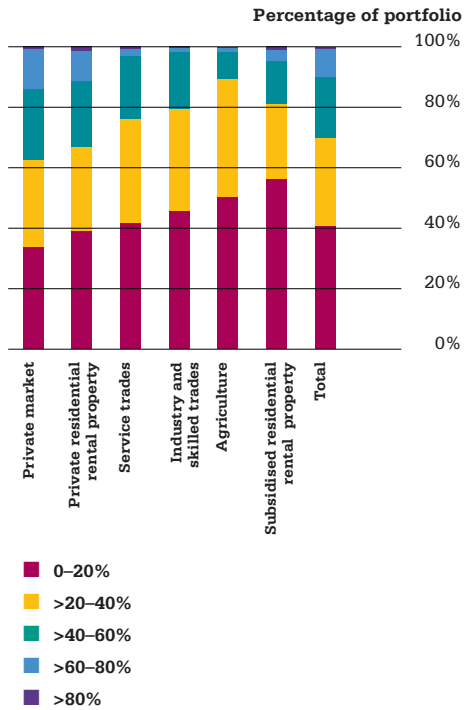
Excluding housing associations.
Domestic portfolio.



| | |
|--------------------|-----|
| DKK 0–0.5 million | 23% |
| >DKK 0.5–1 million | 32% |
| >DKK 1–10 million | 31% |
| >DKK 10–25 million | 7% |
| >DKK 25 million | 7% |

Distribution of loan portfolio by current loan-to-value ratios

Outstanding debt to estimated current property values. Domestic portfolio.



As at 31 December 1998, accumulated provisions totalled DKK 788 million, which was DKK 186 million less than the level as at 31 December 1997.

Movements in arrears are a good indicator of future losses. As in recent years, the rates of arrears – calculated as the ratio of arrears to payments due – declined in 1998. The rate of arrears was 0.3 per cent three months after the September 1998 payment date. This was 0.1 percentage points lower than for the same period in 1997. The rates of arrears were slightly higher in the corporate sector than in the residential sector.

Credit policy

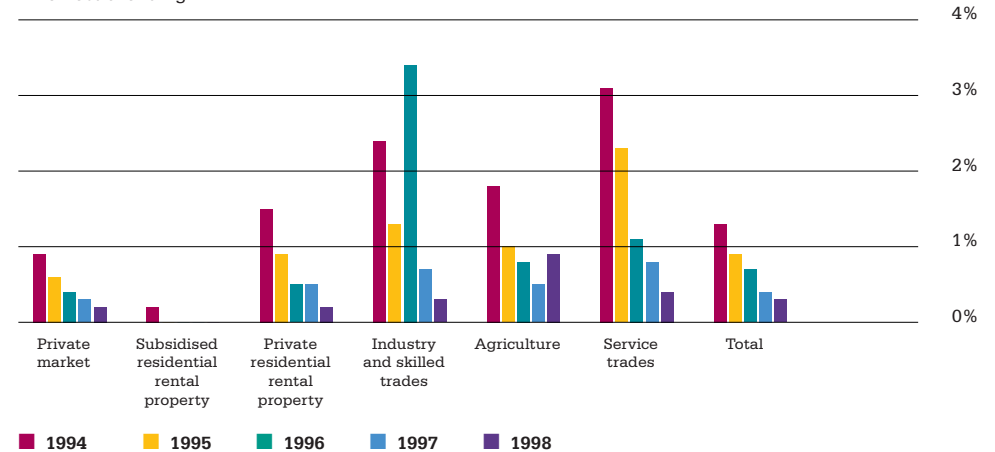
In recent years, the mortgage credit sector has been affected partly by the establishment of new mortgage credit institutions and partly by the strong Danish economy. In spite of this, Realkredit Danmark has not made its credit policy more lenient. The intensified competition for customers has been met by product development and a general strengthening of sales efforts, including improved accessibility.

One of the reasons for the low level of losses in recent years was the sharp increase in house prices. However, prices are not likely to continue to increase at the same rate in the next few years as, everything being equal, the fiscal reform package will curb prices.

RD will therefore continue to focus on the long-term property value. Marketability, location and the expected price potential of the specific property will be given great consideration when the value of a property is determined.

Arrears as a percentage of mortgage payments due

Three months after last acceptable payment date for September payment period. Domestic lending.



The Bond Market

Bonds in issue

Amounts in DKK billion

| | Nominal value | Market value |
|---------------------|---------------|--------------|
| Nominal bonds | 280.5 | 282.1 |
| – of which FlexLån® | 22.1 | 22.2 |
| Index-linked bonds | 58.4 | 59.1 |
| Total | 338.9 | 341.2 |

Funding and bond issues

Realkredit Danmark funds its lending by issuing bonds which are quoted on the Copenhagen Stock Exchange.

RD is one of the largest non-government bond issuers in Europe. On the Copenhagen Stock Exchange, RD's bonds account for about 30 per cent of all listed mortgage bonds.

In principle, the payments on the mortgages underlying loans and the payments to bondholders always balance. This balance between funding and lending eliminates the interest rate and liquidity risk from most of RD's assets and liabilities. The fact that loans provided by BG Kredit are funded by RD bonds does not change this principle.

New issue and redemption of bonds

The Realkredit Danmark Group increased its volume of bonds in circulation by DKK 17 billion to DKK 339 billion in 1998.

New bonds issued in 1998 were mainly callable bonds with a coupon of 6 per cent, and these bonds accounted for close to 70 per cent of Realkredit Danmark's bond issues.

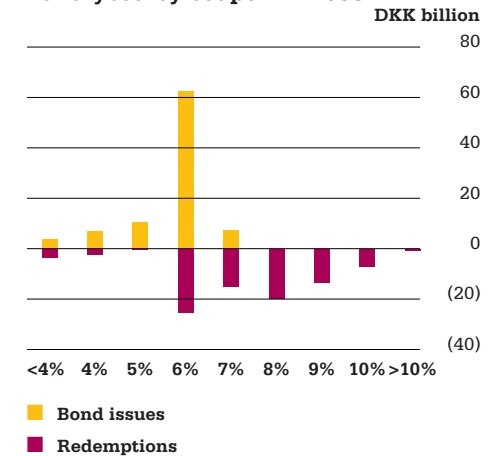
The sharp fall in interest rates and the high rate of turnover in the property market in the first six months of 1998 led to more extraordinary redemptions of bonds in 1998 than in 1997. Redemptions and repayments of RD bonds totalled DKK 87 billion in 1998, which was about 50 per cent more than in 1997. Three-fourths of the redemptions and repayments were of bonds with a maturity of 20 to 30 years with coupons ranging from 6 to 9 per cent.

Closure of index-linked bonds

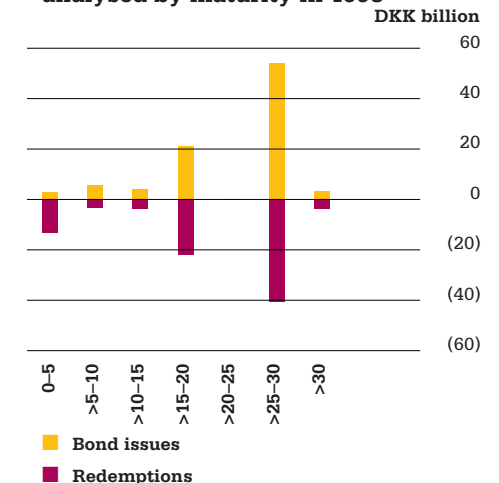
Realkredit Danmark closed its open maturity groups of index-linked bonds on 31 December 1998. This was done to help investors as an amendment to the legislation made index-linked bonds from series in which bonds are issued after 31 December 1998 liable to real interest taxation.

RD opened a new maturity group of index-linked bonds after the turn of the year to partially replace the maturity groups closed. The new maturity group of index-linked bonds will be subject to real interest tax and will be open for five years.

Bond issues and redemptions analysed by coupon in 1998



Bond issues and redemptions analysed by maturity in 1998



Opening of euro-denominated bonds

On 5 January 1999, Realkredit Danmark opened a new series of bonds, the E-series, to fund loans denominated in the euro. The series comprises callable bonds and bullet bonds to fund FlexLån®. Bonds denominated in euro will have the same characteristics as the corresponding bonds denominated in Danish kroner.

The general terms and conditions for the E-series are almost identical to those applicable to RD's D-series. None of the series are subject to joint and several liability. The main difference is that the E-series includes an option of issuing bonds denominated in other currencies as well as in Danish kroner. Bonds in the D-series can only be denominated in Danish kroner.

The euro-denominated bonds will be listed on the Copenhagen Stock Exchange and registered with the Danish Securities Centre.

Rating and sales of bonds

The growing internationalisation and the rating of RD's bonds contributed to an increase in the proportion of Realkredit Danmark bonds held by foreign investors from 4 per cent as at 31 December 1997 to 6 per cent as at 31 December 1998. Most of RD's bonds, 63 per cent, are still held by insurance companies, pension funds and other financial institutions.

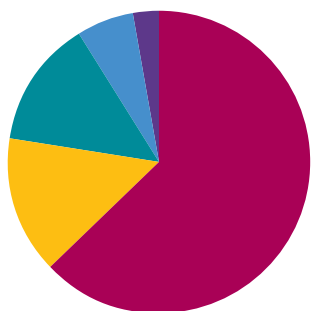
In 1997, Moody's Investors Service Limited rated RD's most important bonds; the rating assigned was Aa3. The rating covers all bonds used to fund RD's lending, including the new euro-denominated bonds. The rating remained unchanged in 1998.

The growing internationalisation of the financial markets meant that the financial crises in Russia and South East Asia in the autumn had an adverse impact on the Danish bond market. Within a short period of time, the market for mortgage bonds saw larger-than-normal fluctuations.

One of the explanations for the fluctuations was that foreign investors had increased their proportion of Danish mortgage bonds in recent years and that the Danish market expected foreign investors to sell their Danish mortgage bonds. These expectations were unfounded.

The increased internationalisation of the Danish bond market does not affect Realkredit Danmark's strategy of selling mortgage bonds to all types of investors, including foreign investors.

Bonds in issue by investor group, 1998



| | |
|-------------------------|-------|
| Financial sector | 63.0% |
| Retail investors | 14.5% |
| Public sector | 13.7% |
| International investors | 6.2% |
| Undisclosed | 2.6% |

Bond trading on the Internet

Realkredit Danmark sees the growing use of the Internet and increased personal savings as a basis for a new securities market for retail investors.

RD's Internet website (www.rd.dk) therefore contains an option for customers to buy and sell RD bonds at prices which make it attractive to trade even small amounts.

Norex collaboration

The joint Danish-Swedish share market will open in 1999. Realkredit Danmark expects that this collaboration will develop into a joint bond market, which will increase the liquidity in the market and make the price formation more efficient. In addition, RD believes that it is important to retain a high level of transparency in bond trading.

Customer Service

RD within easy reach of customers

Realkredit Danmark's development of new products is focused on the customer, and our sales strategy is adjusted to this policy. RD constantly works to ensure that it is easy and attractive to be an RD customer.

RD considers it very important that customers find it easy and uncomplicated to get in contact with an adviser for individual advice. This contact may either be in person at one of RD's 25 branch offices or over the telephone.

Customers who contact RD in person or by telephone accounted for the largest proportion of residential customers in 1998, and RD is therefore actively working to strengthen sales to these customers. The key issue in this ongoing effort is to ensure that customers perceive their contact with RD as being uncomplicated and easy to understand.

Many customers call RD directly. The increase in the number of telephone enquiries has made RD strengthen its telephone services by establishing a new call centre, the Customer Line. The Customer Line is open until 10.00 p.m. on Mondays to Thursdays and from 10.00 a.m. to 4.00 p.m. on Sundays.

RD's Internet Service, which offers information and calculation services, is extended in an ongoing process. RD's website was improved in 1998, and it now offers customers the option to calculate what a new loan would cost and whether refinancing would be cost effective. Customers can also calculate the effect of the Danish Government's latest fiscal reform package.

RD collaborates with several groups of intermediaries such as estate agents, banks, financial consultants, lawyers and property administrators.

Products and advisory services

Many of Realkredit Danmark's customers want flexible and individual solutions. Therefore, RD has in recent years focused on product development based on customer needs. A good example is the extension of the product range to include FlexLån® and euro-denominated loans.

RD expects that the euro will have an impact on Danish trade and industry already from 1999. Therefore, RD has decided to participate from the beginning although Denmark has opted out of stage three of EMU. RD wants to take advantage of the opportunities in the new euro-denominated bond market, which will be the second-largest in the world.

RD developed a number of euro-denominated products in 1998 and offered euro-denominated loans to both corporate customers and personal customers from 5 January 1999. In order to have a broad product range, the new products comprise the same products as those currently offered by RD in Danish kroner. However, index-linked loans are not offered in euros.

Euro-denominated RD bonds have been assigned the same rating as RD's bonds underlying loans denominated in Danish kroner. This will promote sales of RD's euro-denominated bonds and contribute to a competitive interest spread to government bonds.

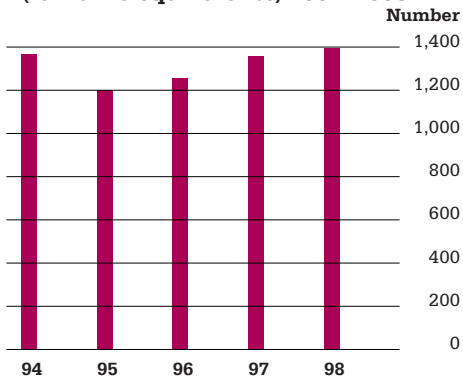
The change in the level of interest rates in recent years has made it attractive to refinance loans. RD developed a new service in 1998, Price Monitoring, which enables customers to make an individual agreement with RD that they will be informed when it is attractive for them to refinance their loans.

Dialogue with customers

Realkredit Danmark makes a major customer survey every year to assess customer satisfaction. In 1998, four areas were surveyed: whether customers were satisfied with the pace of the loan process, whether customers were satisfied with the guidance they received during the loan process, whether written material was easily understood, and whether customers were satisfied with the information received from various RD departments. The survey showed that RD has generally been able to retain a high level of customer satisfaction. RD will continue to focus on achieving high levels of customer satisfaction in the years to come.

Employees

Average number of employees (full-time equivalents) 1994–1998



The Realkredit Danmark Group had an average of 1,396 employees in 1998. This was an increase of 36 employees compared with the level in 1997.

RD hired 18 trainees, who all started on 1 September 1998.

RD has decided to hire trainees again in 1999. We therefore also participated in The Training Caravan in 1998, a drive in which RD-employees presented our training programme at commercial schools and barracks throughout Denmark.

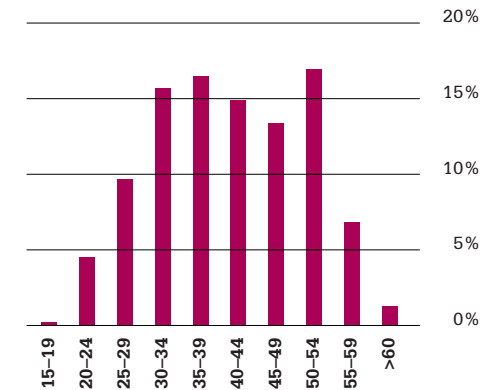
The competitive environment in the financial sector has changed dramatically, and to meet this competition and our customers' demands, we are working to turn Realkredit Danmark into a more sales orientated organisation. Therefore, RD focuses on each employee's capabilities.

Developments in general make constantly growing demands on our employees' qualifications. Therefore, RD maintains its high level of employee training.

To boost employee IT qualifications, RD made an offer to employees in the spring of 1998 of a home computer against a commitment of obtaining a "PC drivers' licence" within three years.

RD also runs an extensive training programme for managers at all levels. In 1998, RD continued the development of the individual managers' leadership qualities.

Permanent employees by age group at 31 December 1998



Legislation

Fiscal reform package

The new Danish fiscal reform package which was adopted in the spring of 1998 gradually reduces the tax value of mortgage interest deductions. The value of deductions will be reduced from approximately 46 per cent in 1998 to approximately 32 per cent in 2001.

In addition, the imputed rental value of owner-occupied property will be abolished. From 2000, this tax will be replaced by a property value tax, which will be based on the publicly assessed property value. The tax rate will be 0.10 per cent of the property value, and 0.30 per cent of any property value exceeding DKK 2,150,000. A number of transition rules and exemptions apply.

The Danish Mortgage Credit Act

In June 1998, the Danish Parliament adopted an amendment to the Danish Mortgage Credit Act specifying the bankruptcy rules for mortgage credit institutions. This legislation was enacted as a result of greater interest by foreign investors in Danish mortgage credit institutions, and the wish for Danish mortgage bonds to be rated. Following the amendment to the Act, the Danish Financial Supervisory Authority issued a new order in August 1998 on bankruptcy rules for mortgage credit institutions.

Examples of other new orders relating to mortgage credit activities are the Financial Supervisory Authority's Order on Property Valuation by Mortgage Credit Institutions and Loan-to-value Ratios and a new Order on Lending by Mortgage Credit Institutions against Temporary Guarantees, etc.

An amendment to the Danish Banking Act and the Danish Mortgage Credit Act was adopted just before the Danish Parliament's summer recess.

This amendment was specifically brought about by the proposed merger of Realkredit Danmark and BG Bank and removed obstacles in the Mortgage Credit Act and the Banking Act which would otherwise prevent directors of the merging parties from being directors of the holding company.

The amendment made it possible, subject to the permission of the Supervisory Board, for a director of a bank or a mortgage credit institution to concurrently be a director of the parent company of the bank or mortgage credit institution. It is a prerequisite that the parent company's activity is solely or predominantly to act as a parent company of banks and mortgage credit institutions.

In December 1998, the Danish Parliament adopted a number of other amendments to the Mortgage Credit Act. These amendments included a simplification of lending rules, including the consequences of the discontinuation of real-interest-tax exemption for index-linked bonds.

In addition, the Agricultural Mortgage Credit Association's special status in the agricultural segment was discontinued. This was done through the introduction of ordinary mortgage credit to the agricultural segment by way of a general maximum loan-to-value ratio of 70 per cent.

Subsidised residential rental property

In December 1998, the Danish Parliament passed legislation on new financing rules for subsidised property with subsidy commitments from 1 January 1999. The legislation promotes a greater level of self-finance in the sector through a strengthening of the National Building Fund. In future, the rate of tenant payments will be related to the purchase price of the property and will no longer depend on the underlying financing of the property. Initially, the rate of tenant payment has been fixed at 3.6 per cent of the approved purchase price. The tenant payment is then adjusted annually according to the rules applicable to the index-linked finance. The public subsidy continues to be calculated as the difference between the instalment on the loan and the tenant payment.

In addition to new financing and tenant payment rules, the amendment also includes subsidies to pilot projects for new types of housing.

The rules on obligatory financing by so-called IS-35 loans were abolished, and a broader range of mortgage loans are now available for new property based on fixed-interest loans – initially annuity loans with maturities of 30 years.

A voluntary transition scheme will be established for subsidised housing, etc. with subsidy commitments made before 1 January 1999. In these cases, the authorities making the commitment (municipalities, counties or the National Building fund) may approve financing under the new rules, i.e. by fixed-interest loans rather than index-linked loans for the proportion of the mortgaging which had not been finalised before the turn of the year.

Cooperative housing

In December 1998, the Danish Government also adopted an amendment to the financing rules for subsidised cooperative housing with subsidy commitments made before 1 January 1999.

The new legislation implemented a change in the financing of this type of property to mortgage loans with maturities of 30 years. In addition, the rate of tenant payment was raised from the current level equivalent to 4 per cent of the purchase price annually to 4.48 per cent.

The rules for adjustment of the tenant payment and the calculation of subsidies correspond to the rules that apply to subsidised residential rental property.

Moreover, a voluntary transition scheme will be established for the financing of projects with loan commitments made before 1 January 1999, i.e. in line with the new rules for subsidised rental property.

Finally, the quota for subsidised private cooperative property has been reduced for 1999 from 1000 units to 750 units.

Stamp duty

As part of the agreement on the Finance Act, the Danish Parliament agreed on 18 December 1998 to prolong the temporary increase of the rate of stamp duty on equity loans to the effect that 5 per cent stamp duty will be payable until the end of November 1999. The stamp-duty rate prior to the temporary increase was 1.5 per cent.

Financial Review

Profit and loss account

The Realkredit Danmark Group posted a profit before tax of DKK 1,997 million. Profit after tax amounted to DKK 1,335 million against DKK 1,563 million in 1997. The profit was affected by a lower return on the securities portfolio, increased income from lending activities as well as increased operating costs from the implementation of IT projects and increased lending.

Lending activity was almost 33 per cent higher in 1998 than in 1997. The RD Group's market share of gross lending was just over 24 per cent. In spite of the keen competition in the mortgage credit market, RD posted a profit on core mortgage credit activities of DKK 602 million against DKK 646 million in 1997.

Net interest and fee income

Net interest and fee income increased compared with last year by DKK 225 million to DKK 2,932 million, of which DKK 86 million represents increased income from lending.

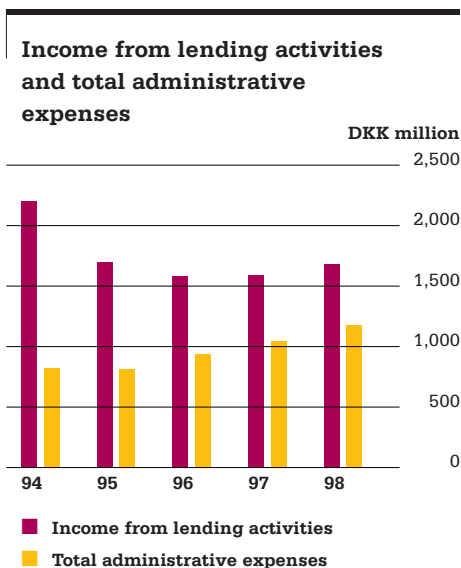
Contribution income amounted to DKK 1,408 million in 1998 against DKK 1,338 million in 1997. The DKK 70 million increase was primarily attributable to an increase in the loan portfolio.

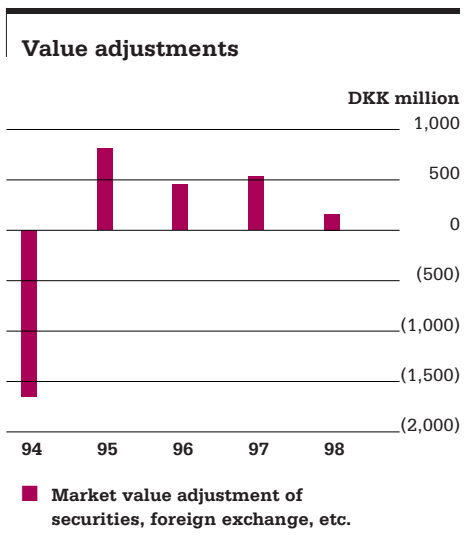
The higher level of lending activity resulted in an increase in income from commitment fees on new loans to DKK 175 million from DKK 139 million in 1997. Conversely, reimbursement of commitment fees increased from DKK 77 million to DKK 108 million.

Shares disbursed in pre-1972 series fell from DKK 185 million to DKK 156 million.

Fee income from lending activities amounted to DKK 239 million, which was DKK 31 million more than in 1997 and was primarily a result of greater lending activity.

Other net interest and fee income amounted to DKK 1,374 million, which was DKK 90 million more than in 1997.





Market value adjustments

Value adjustment of securities, foreign exchange adjustments, etc. totalled DKK 162 million in 1998 against DKK 534 million in 1997.

Administrative expenses

The group's administrative expenses amounted to DKK 1,263 million in 1998, equivalent to a 13 per cent increase on the level in 1997.

The increase should be seen in the light of costs of approximately DKK 65 million incurred in 1998 for a number of major IT projects and product development. The IT projects are expected to run until 2001, and the object of the projects is to simplify the systems and, consequently, to release resources for increased sales efforts.

Moreover, the increased lending activity and the more competitive environment led to staff increases, primarily in customer service functions, and to increased activity-related expenses.

Finally, contractual pay rises affected administrative expenses, and approximately DKK 20 million was spent on home PCs to the employees in 1998.

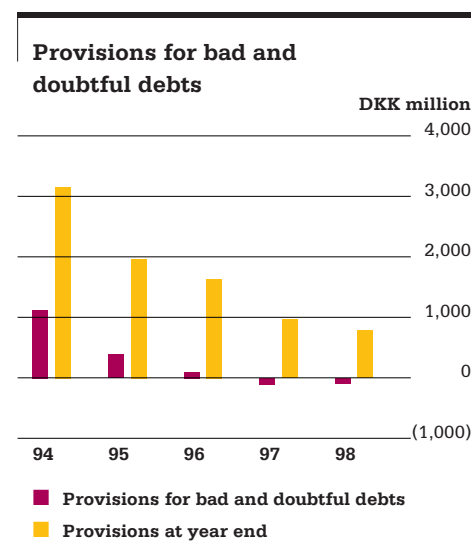
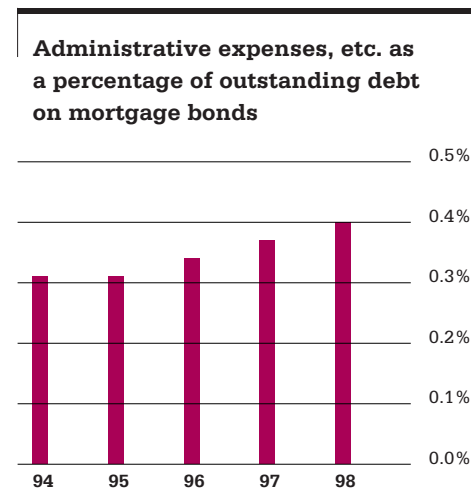
Converted into full-time equivalents, RD's staff increased from 1,360 in 1997 to 1,396 in 1998, 24 of whom were employed in BG Kredit.

Provisions for bad and doubtful debts

An income of DKK 99 million was recognised against provisions for bad and doubtful debts, corresponding to the amount recognised in 1997. The amount does not reflect the actual loss level as it is attributable to the recovery of DKK 67 million written off in previous years and to movements in provisions. Provisions of DKK 92 million were reversed in 1998 in connection with the final settlement of non-performing loans, while recognised losses and provisions on other facilities amounted to a charge of DKK 85 million. This brought accumulated provisions for bad and doubtful debts to DKK 788 million as at 31 December 1998, equivalent to 0.25 per cent of total lending. As at 31 December 1997, this figure was 0.32 per cent. The RD Group held 22 repossessed properties as at 31 December 1998 against 32 at 31 December 1997.

Other items

Net extraordinary expenses amounted to DKK 63 million, of which DKK 57 million is a write-down of own properties.



In 1998, DKK 662 million was allocated for tax compared with DKK 714 million in 1997.

The group's profit on ordinary activities totalled DKK 2,060 million. Profit for the year after extraordinary items and tax amounted to DKK 1,335 million.

Balance sheet

The group's total assets amounted to DKK 377 billion, which was an increase of DKK 24.6 billion compared with total assets as at 31 December 1997.

On the asset side, mortgage lending increased by DKK 13.4 billion. The securities portfolio and balances due from other credit institutions, combined, increased by DKK 11.2 billion from 1997 to 1998, while other loans decreased by DKK 0.4 billion.

On the liabilities side, issued bonds increased by DKK 17.0 billion. Balances due to other credit institutions and other liabilities, combined, increased by DKK 8.2 billion.

Shareholders' equity amounted to DKK 15,309 million as at 31 December 1998 against DKK 16,317 million at the beginning of the year. Separate accounts have been prepared for series with reserve funds. Pages 66 and 67 contain a summary of the profit and loss accounts and balance sheets of the series reserve funds.

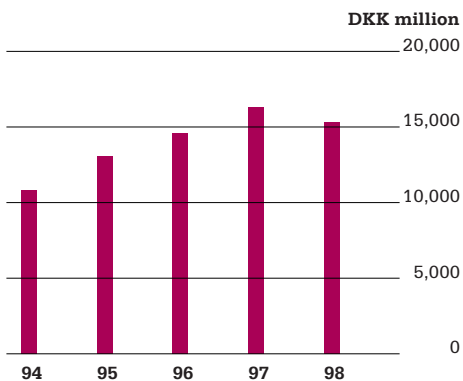
Cash flow statement

The cash flow statement shows the cash flow from operating activities, cash flow from investing activities, movements in mortgage credit lending, and movements in funding.

Total cash and cash equivalents, which include cash at bank and in hand and balances due from other credit institutions, amounted to DKK 17,327 million at the end of 1998 against DKK 16,555 million at the beginning of the year.

The cash flows were especially influenced by increased funding and funds paid in at the end of the year for redemptions at par, while the underlying bonds are not drawn until later. These increases were largely offset by increased lending and an increase in the securities portfolio.

Movements in Shareholders' equity



Capital base

Kapital Holding A/S – the joint holding company of BG Bank A/S and Realkredit Danmark A/S – intends to pursue a dividend policy which will ensure that Realkredit Danmark's Tier 1 ratio is approximately 9 per cent, and that BG Bank's Tier 1 ratio is approximately 8 per cent. RD has therefore included DKK 2,500 million for dividends to Kapital Holding A/S in the statement of profit allocation.

At the end of the financial year, the group's capital base (Tier 1 + 2) amounted to DKK 20,284 million. This exceeded the statutory requirement of DKK 13,576 million by DKK 6,708 million. The capital requirement is calculated by risk weighting all assets etc., including items subject to a market risk. The largest item is the loan portfolio, which is weighted at between 50 per cent and 100 per cent depending on the type of property and the borrower.

The group's capital base amounted to 11.953 per cent of the weighted assets against 13.059 per cent at the beginning of the year. The Danish Mortgage Credit Act prescribes that the capital base must be at least 8.0 per cent of the institution's risk-weighted assets etc. including items subject to market risk.

The capital base is the sum of Tier 1 capital and supplementary capital less participating interests etc. exceeding 10 per cent in undertakings in which Realkredit Danmark does not have a controlling interest. Tier 1 capital consists chiefly of share capital, series reserves not subject to a reimbursement obligation and other reserves. Supplementary capital primarily consists of subordinated loan capital and the value of the borrowers' joint and several liability, which may at the most include 30 per cent of the Tier 1 capital of each series.

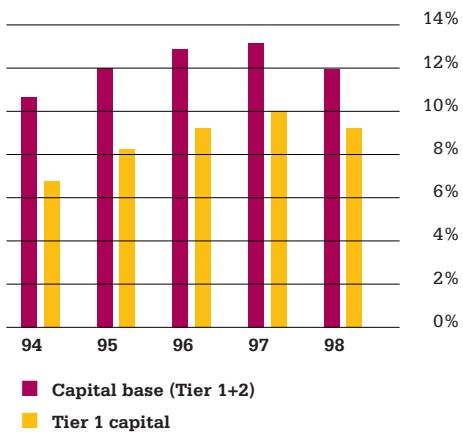
Tier 1 capital amounted to DKK 15,662 million as at 31 December 1998 against DKK 16,313 million as at 31 December 1997. The decline should be seen in the light of the adopted dividend policy. Realkredit Danmark A/S had a Tier 1 capital of DKK 15,298 as at 31 December 1998, and a Tier 1 ratio of 9.0 per cent.

The supplementary capital had fallen by DKK 213 million to DKK 4,955 million as at 31 December 1998. The fall was primarily due to the reduction in the rate of inclusion of joint and several liability.

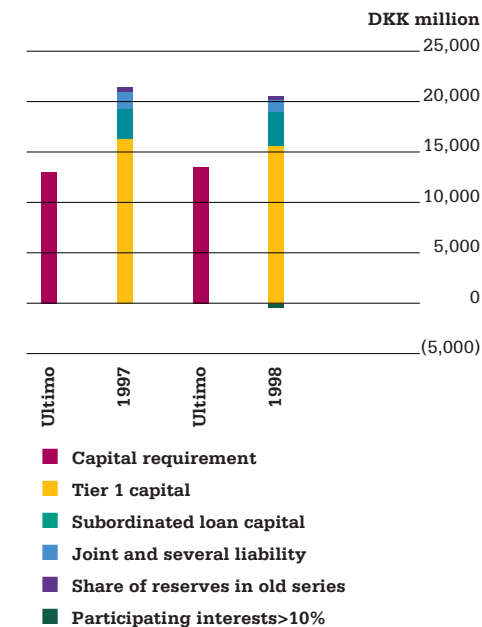
The increase in the capital requirement is primarily the result of the larger loan portfolio, while the remaining increase is attributable to other assets.

Overall, these factors resulted in a falling solvency ratio relative to the statutory level.

Solvency ratio and tier 1 ratio



Elements of capital 1997-1998



Solvency

| Amounts in DKK million | 1998 | 1997 |
|--|-----------------|-----------------|
| Tier 1 capital: | | |
| Share capital | 500.0 | 500.0 |
| Reserves in series subject to a reimbursement obligation | 284.6 | 283.7 |
| Reserves in series not subject to a reimbursement obligation | 3,907.1 | 4,928.3 |
| Other reserves | 10,617.5 | 10,605.1 |
| Shareholders' equity *) | 15,309.2 | 16,317.1 |
| Adjustment for intangible fixed assets | (14.6) | (4.5) |
| Minority interests | 367.6 | – |
| Total tier 1 capital | 15,662.2 | 16,312.6 |
| Tier 2 capital: | | |
| Subordinated loan capital | 3,367.5 | 3,000.0 |
| Joint and several liability | 1,170.6 | 1,721.7 |
| Share of reserves in old series | 416.8 | 445.9 |
| Supplementary capital | 4,954.9 | 5,167.6 |
| Deductions: | | |
| Investments in participating interests >10 per cent | (332.8) | – |
| Capital base | 20,284.3 | 21,480.2 |
| Capital requirement | 13,576.3 | 13,043.5 |
| Capital in excess of requirement | 6,708.0 | 8,436.7 |
| Solvency ratio | | |
| – Capital base (Tier 1+2) | 11.953% | 13.175% |
| – Tier 1 capital | 9.229% | 10.005% |

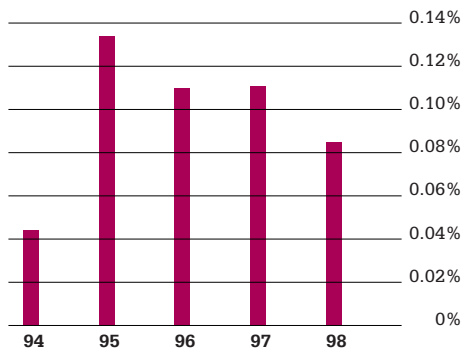
*) Of which reserves in post-1971 series with joint and several liability in 1997 and 1998 amounted to DKK 4,916.3 million and DKK 3,895.5 million, respectively.

Transition rules

The proportion of joint and several liability which can be included in the capital base will be scaled down over the coming years, and the right to include this type of capital will end in 2001. From 1 January 1999, the rate of inclusion was reduced from 30 per cent to 20 per cent of the Tier 1 capital of each series. This resulted in a reduction of the solvency ratio from 12.0 per cent to 11.8 per cent on 1 January 1999.

Securities Portfolio

Return on securities portfolio 1994–1998



Return on the securities portfolio

Return and market developments

The return on Realkredit Danmark’s securities portfolio and cash and cash equivalents adjusted for funds paid in for redemptions at par was 8.5 per cent in 1998 compared with 11.1 per cent in 1997. The return amounted to DKK 2.1 billion and was composed of capital gains in the amount of DKK 0.2 billion and interest and brokerage in the amount of DKK 1.9 billion. The market value of the portfolio as at 31 December 1998 was DKK 42.9 billion.

The rate of return on the bond portfolio and financial interest instruments alone was 6.8 per cent against 8.3 per cent in 1997. The return on the portfolio of listed shares was 4.5 per cent in 1998 against 40.0 per cent in 1997.

The lower return on the securities portfolio in 1998 was mainly a result of lower capital gains on mortgage bonds and shares. This should be seen in the light of developments in the international capital markets.

In the bond markets, investors increasingly preferred government bonds to bonds from private issuers as a result of the increased focus on credit risk in connection with the crises in Russia and Asia. Consequently, while the yield on the Danish benchmark ten-year government bond dropped by 1.4 percentage points, the yield on 6 per cent, 30-year mortgage bonds only dropped by 0.3 percentage points. This reduced the capital gains on RD’s bond portfolio compared with the situation in 1997 when the yield on long-term mortgage bonds fell by more than one percentage point.

Capital gains in the equity market were subdued in 1998 compared with previous years. The CSE-index (the Copenhagen Stock Exchange index of the 20 most liquid shares) was up by 4.2 per cent compared with a 54.7 per cent increase in 1997.

Return on selected bonds in 1998

| Bonds | Return |
|----------------------------|--------|
| Three month treasury bill | 4.1% |
| 6% Government 1999 | 5.0% |
| 8% Government 2003 | 9.8% |
| 7% Government 2007 | 15.5% |
| 6% Government 2009 | 15.4% |
| 7% Government 2024 | 21.3% |
| 4% Realkredit Danmark 1999 | 4.3% |
| 8% Realkredit Danmark 2029 | 6.1% |
| 7% Realkredit Danmark 2029 | 9.2% |
| 6% Realkredit Danmark 2029 | 9.5% |

Market risk

Risk profile

Realkredit Danmark A/S's Supervisory Board defines the overall framework of the company's risk profile within the limits set out in the Danish Mortgage Credit Act. Upper and lower limits have been fixed with regard to how much the market value of assets and liabilities may fall in the event of an increase in the interest rate level of one percentage point. Moreover, the Supervisory Board fixes the limits of market risks on shares and foreign exchange positions.

Realkredit Danmark measures its risk according to a model, which has been approved by the Danish Financial Supervisory Authority, for measuring interest exposure for capital adequacy purposes and according to the capital adequacy rules set by the Financial Supervisory Authority for share price exposure and exchange rate exposure.

Interest exposure on all assets and liabilities

Realkredit Danmark measures and manages the interest exposure on all its assets and liabilities. This provides an overall picture of the consequences of an increase in interest rates. The main balance sheet items subject to interest exposure are RD's portfolios of bonds and reserve fund mortgage deeds, RD's subordinated loan capital, the loan portfolio and issued bonds. The positive interest exposure on RD's loan portfolio and the negative interest exposure on issued bonds each amount to about DKK 10 billion. The difference is a minus of DKK 28 million and corresponds to the interest exposure in the strict balance principle. The interest exposure in the strict balance principle amounts to 0.01 per cent of the loan portfolio.

The interest exposure on assets and liabilities was DKK 524 million as at 31 December 1998. An increase in interest rates by one percentage point would result in a loss of DKK 524 million if all items in the balance sheet were realised. This corresponds to an interest exposure of 3.4 per cent on RD's shareholders' equity of 15,309 million at the end of 1998.

During the year, RD increased its interest exposure by DKK 97 million.

Market risk on assets and liabilities as at 31 December 1998

| Amounts in DKK million | Market value | Interest rate risk | Other risks |
|---|---------------|--------------------|-------------|
| Bonds | 33,906 | 610 | – |
| Shares, etc. | 1,962 | – | 235 |
| Foreign exchange | – | – | – |
| Reserve fund mortgage deeds | 436 | 15 | – |
| Market risk affecting financial results | 36,304 | 625 | 235 |
| Net balances due from credit institutions | 18,380 | 5 | – |
| Early redemptions | (10,609) | (8) | – |
| Subordinated loan capital | (3,000) | (70) | – |
| Loans | 311,899 | 9,721 | – |
| Bonds in issue | (338,890) | (9,749) | – |
| Other assets and liabilities not subject to market risk | 1,225 | – | – |
| Total market risk on shareholders' equity | 15,309 | 524 | 235 |

Interest exposure affecting the accounts

Not all items in the balance sheet are marked to market in the accounts. The interest exposure affecting the accounts relates to RD's portfolios of bonds and reserve fund mortgage deeds. The interest exposure on these instruments totalled DKK 625 million at the end of 1998. An increase in interest rates of one per cent would reduce RD's profit by DKK 625 million.

Market risk on shares

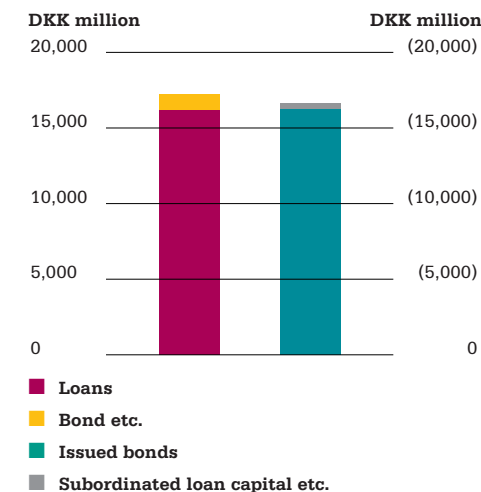
Realkredit Danmark's share portfolio increased in 1998 as a result of additional purchases of shares. The market value of the share portfolio, including shares in subsidiaries, was DKK 1,962 million as at 31 December 1998, equivalent to 12.8 per cent of shareholders' equity compared with DKK 1,302 million at the end of 1997. The market risk reported to the Financial Supervisory Authority was 12 per cent of the market value of listed and unlisted shares, equivalent to DKK 235 million as at 31 December 1998.

Market risk on currency positions

Realkredit Danmark has very small unhedged currency positions. As at 31 December 1998, the market risk on currency positions was DKK 0.4 million.

Realkredit Danmark uses the Financial Supervisory Authority's currency indicator 2 as the basis for the limits to its exchange rate risk. A DKK 0.4 million value of currency indicator 2 indicates that if Realkredit Danmark does not change its currency exposure over the coming ten days, there is a one per cent risk of realising an exchange loss larger than DKK 0.4 million.

Positive interest rate risk (assets) and negative interest rate risk (liabilities)



Financial instruments

Realkredit Danmark’s Supervisory Board approves the use of financial instruments. RD uses financial instruments mainly to hedge prices and risks. The market risk is an integral part of the risk on the underlying assets.

As in previous years, Realkredit Danmark primarily used forward contracts, FRAs, repo/reverse transactions and currency swaps in 1998.

Realkredit Danmark has offered euro-denominated loans to customers since 5 January 1999. In order to hedge its positions in the euro, RD has started investing in euro-denominated bonds and futures listed on stock exchanges outside Denmark. This is also being done for the purpose of investing RD’s own portfolio more broadly in order to generate an even better return relative to the risk.

In accordance with the Supervisory Board’s guidelines to ensure satisfactory financial risk management and control, new financial instruments have been integrated in RD’s financial reporting and risk management systems.

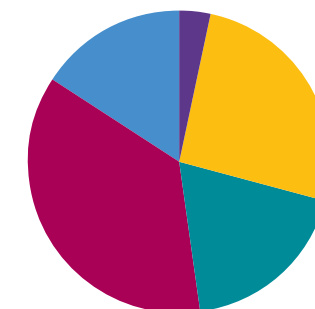
Composition of the securities portfolio

Danish bonds accounted for 93 per cent of Realkredit Danmark’s total securities portfolio as at 31 December 1998. Mortgage bonds accounted for 55 per cent, government bonds for 29 per cent and other bonds for 16 per cent, primarily drawn mortgage bonds. In 1997, the corresponding percentages were 47 per cent mortgage bonds, 22 per cent government bonds and 31 per cent other bonds.

Shares and similar securities accounted for 5.4 per cent of the securities portfolio at the end of 1998 against 4.6 per cent in 1997. The proportion of shares has been gradually increased in recent years.

Year-end bond portfolio

Market value in DKK million



| | |
|-------------------------------|-------|
| ■ Short-term government bonds | 3.5% |
| ■ Long-term government bonds | 25.8% |
| ■ Short-term mortgage bonds | 18.5% |
| ■ Long-term mortgage bonds | 36.6% |
| ■ Other | 15.6% |

Accounting Policies

Basis of preparation

The accounts are presented according to the same accounting policies as the 1997 accounts and in compliance with the Danish Mortgage Credit Act and the Executive Order on the Presentation of Accounts by Mortgage Credit Institutions and related guidelines. In addition, the accounts have been prepared according to the Copenhagen Stock Exchange's rules for issuers of listed securities.

Basis of consolidation

The consolidated accounts include the parent company, Realkredit Danmark A/S and subsidiary undertakings in which the parent company directly or indirectly possesses more than 50 per cent of the votes or in any other way exerts a controlling influence. Minor subsidiary undertakings without commercial activities, or subsidiary undertakings acquired as a measure to contain losses are not consolidated.

The consolidated accounts are prepared on the basis of the accounts of the consolidated undertakings. The accounts are prepared according to uniform accounting policies.

The consolidated accounts are thereafter prepared by adding like items for the consolidated undertakings. Intercompany transactions are eliminated.

The profit and shareholders' equity of the consolidated subsidiary undertakings attributable to minority interests are stated as separate items in the profit and loss account and balance sheet.

PROFIT AND LOSS ACCOUNT

Market value adjustment of securities and exchange rate adjustment

Market value adjustment of bonds, shares, etc. comprises both realised and unrealised gains and losses.

Gains and losses from the translation of balance sheet items denominated in foreign currency are stated in the profit and loss account under "Exchange rate adjustment of foreign currency". The translation into Danish kroner is made at the official exchange rates as at 31 December, and at estimated exchange rates for unquoted currencies.

Market value adjustment of financial instruments

Financial instruments, which comprise unsettled spot and forward transactions, SWAPS, FRAs, futures, options, etc. are marked to market as at 31 December. The positive or negative market value is carried in the balance sheet under "Other assets" or "Other liabilities", respectively.

However, financial instruments entered into to hedge the interest rate exposure on fixed income assets and liabilities are not marked to market.

Exchange rate adjustments of financial instruments are included in "Exchange rate adjustment of foreign currency". The accrued share of forward premiums/discounts on forward securities and forward foreign exchange transactions is stated under "Other interest receivable" or "Other interest payable". Other market value adjustments are stated (net) under "Market value adjustment of other financial instruments".

Taxation

Realkredit Danmark A/S is taxed on a pooled basis with a number of group undertakings. The combined taxes are allocated to the undertakings in the tax group using the full absorption method. Accordingly, undertakings with a tax loss receive a tax reimbursement from the other undertakings in the tax group.

The estimated tax on the profit for the year is charged to the profit and loss account under "Estimated tax on the year's profit".

Prior-year adjustments are stated under "Adjustments of tax estimated in prior years".

The companies of the group are registered for the on-account tax scheme. To the extent tax paid on account does not correspond to the expected tax on the profit for the year, the interest charge or allowance on the deviation is included in "Other interest payable" or "Other interest receivable", respectively.

Deferred tax on timing differences between the financial and fiscal recognition of income and expenses is included in "Provisions for liabilities and charges". Any deferred tax asset is not included in the balance sheet. The year's changes in deferred tax are included in the profit and loss account under "Deferred income tax".

BALANCE SHEET

Repo-reverse transactions

Securities sold for which a concurrent agreement is made for later repurchase at a certain price (repo-transactions) remain on the balance sheet. Interest and value adjustments are taken to the profit and loss account as if the securities were still held. Amounts received are stated as an amount owing to the pur-

chaser under "Balances due to other credit institutions" or "Other liabilities". The agreed interest charge is stated as interest payable.

Securities purchased for which a concurrent agreement is made for later resale at a certain price (reverse-transactions) are not included in the balance sheet as holdings of securities. Amounts paid are stated as loans to the seller backed by the purchased securities under "Balances due from other credit institutions" or "Other loans". The agreed interest is stated as interest receivable.

Lending

Loans are subjected to a review and a critical risk assessment, and loan loss provisions are made on the basis thereof. Such provisions are set off against the individual assets. Recognised losses on loans and movements in provisions are stated in the profit and loss account under "Provisions for bad and doubtful debts".

Mortgage loans, including amortisation accounts, are stated at nominal values. Index-linked loans are stated on the basis of the 31 December index. Other loans (reserve fund mortgages, etc.) are stated at original cost and reflect interest and risk conditions at the time of issue or at an estimated lower value as at 31 December.

Bonds

Danish listed bonds, including the portfolio of own bonds, are stated at officially quoted prices as at 31 December. Bonds which are redeemed on 2 January are stated at redemption price. Drawn bonds which mature later are valued with due consideration to the remaining time to maturity.

Listed foreign bonds are stated at the latest quoted prices and translated at the exchange rates ruling on 31 December.

Unlisted bonds are stated at the lower of a conservatively estimated value and original cost.

Shares

Listed shares are stated at officially quoted prices as at 31 December. Unlisted bonds are stated at the lower of a conservatively estimated value and original cost.

Participating interests

Interests in subsidiary and associated undertakings and other significant participating interests are stated at a proportional share of the equity value. Value adjustments are stated as "Value adjustment of participating interests".

Intangible assets

Based on a specific evaluation, intangible assets, which include leasehold improvements, etc., are either charged to the profit and loss account in the year of acquisition under "Extraordinary expenses" or amortised using the straight-line method over the term of the lease, based on the expected life of the asset to the company, or five years, whichever is the shorter. Purchased goodwill is written off directly against shareholders' equity in the year of acquisition.

Own properties

Own properties are stated at cost or the book value as at 31 December 1990 with the addition of rebuilding expenses incurred and the deduction of depreciation and write-downs.

Properties whose market value is significantly higher than the purchase price are revalued to the higher value. If the value of a property is lower than the value so calculated, and if this lower value is not expected to be of a temporary nature, the property will be written down to the lower value.

Properties are depreciated over the estimated useful economic lives of the properties, which is maximum 75 years.

Foreclosed properties

"Foreclosed properties" comprise own loans and senior mortgage debt to other mortgagees as well as other cash outlays, etc. regarding the foreclosed properties. Following an individual assessment of the risk of loss on each property, necessary provisions are made for losses. These provisions are set off against the assets, and the movement in the provision is stated in the profit and loss account under "Provisions for bad and doubtful debts".

Machinery and equipment

Machinery and equipment as well as major investments in application software and similar assets are stated at purchase price and depreciated over the estimated useful economic lives of the assets. For machinery and equipment, the useful economic lives are estimated to be maximum ten years, for automobiles five years and for computer equipment maximum five years. Individual assets with a purchase price of less than DKK 8,900 are fully depreciated in the year of acquisition.

Issued mortgage bonds

Issued mortgage bonds are stated in the balance sheet at nominal value. Index-linked bonds are stated on the basis of the 31 December index.

Other liabilities

Sales of securities received as security in a reverse transaction do not affect the treatment of the reverse transaction in the accounts, but the sales involve an obligation to repurchase the securities before the expiration of the reverse transaction. The repurchase obligation, equivalent to the amount received, is stated under "Other liabilities". The interest expense and value adjustment in respect of this liability is included in the profit and loss account items for the type of securities sold.

Reserves in pre-1972 series subject to a reimbursement obligation

Movements in reserves in pre-1972 series subject to a reimbursement obligation are taken to shareholders' equity.

CASH FLOW STATEMENT

The cash flow statement shows the cash flow from operating activities, cash flow from investing activities, movements in mortgage lending and other lending, and movements in funding. Moreover, the statement shows cash and cash equivalents at the beginning and end of the year.

The cash flow from operating activities is made up indirectly on the basis of the pre-tax profit for the year adjusted for, among other things, non-cash profit and loss items and tax paid.

The cash flow from investing activities includes purchases and sales of securities, movements in repo-reverse transactions and purchases and sales of tangible and intangible fixed assets.

The net movement in mortgage lending and other lending is made up before provisions for bad and doubtful debts, etc.

The net movement in funding comprises, among other things, the issue, drawing and redemption, respectively, of mortgage bonds.

Cash and cash equivalents comprise cash in hand, etc. and balances due from other credit institutions net of receivables relating to reverse transactions.

INTERCOMPANY TRANSACTIONS

The group consists of a number of independent legal entities. Trading between the undertakings of the group or work carried out by one undertaking for another undertaking of the group is charged on the basis of market conditions or on a cost-covering basis.

Profit and Loss Account

| 1 January – 31 December 1998 | Note | Amounts in DKK million | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|------------------------------|------|---|--------------------------|-------------------|------------------------|-------------------|
| | | | 1998 | 1997 | 1998 | 1997 |
| | | Interest receivable, etc.: | | | | |
| | | Interest from credit institutions | 430.3 | 227.1 | 539.6 | 229.1 |
| | | Interest on loans | 20,228.0 | 20,840.5 | 20,121.0 | 20,835.7 |
| | | Interest on bonds: | | | | |
| | | Own mortgage bonds, etc. | 646.1 | 728.6 | 633.8 | 725.0 |
| | | Other mortgage bonds | 641.9 | 304.0 | 632.7 | 304.0 |
| | | Government bonds | 339.4 | 416.0 | 323.8 | 408.6 |
| | | Other bonds, etc. | 23.6 | 26.4 | 23.6 | 26.4 |
| | | Contributions to administration and reserve funds | 1,407.7 | 1,338.1 | 1,399.6 | 1,338.1 |
| 1 | | Other interest receivable | 277.4 | 231.2 | 277.3 | 231.1 |
| 8 | | Total | 23,994.4 | 24,111.9 | 23,951.4 | 24,098.0 |
| | | Interest payable, etc.: | | | | |
| | | Interest to credit institutions | (116.4) | (59.7) | (118.1) | (59.7) |
| | | Interest on mortgage bonds issued | (20,590.3) | (21,013.1) | (20,590.3) | (21,013.1) |
| | | Interest on subordinated loan capital | (312.4) | (306.0) | (306.0) | (306.0) |
| | | Disbursed reserve fund shares | (264.4) | (261.9) | (264.4) | (261.9) |
| | | Other interest payable | (71.9) | (43.0) | (72.0) | (43.1) |
| | | Total | (21,355.4) | (21,683.7) | (21,350.8) | (21,683.8) |
| | | NET INTEREST INCOME | 2,639.0 | 2,428.2 | 2,600.6 | 2,414.2 |
| 8 | | Dividend on shares, etc. | 13.6 | 8.2 | 13.6 | 8.2 |
| 8 | | Fees and other commission receivable, etc. | 361.7 | 307.9 | 360.8 | 307.7 |
| | | Fees and other commissions payable | (82.1) | (37.1) | (63.1) | (38.1) |
| | | NET INTEREST AND FEE INCOME | 2,932.2 | 2,707.2 | 2,911.9 | 2,692.0 |
| | | Market value adjustment of securities, exchange rate adjustment, etc.: | | | | |
| | | Market value adjustment of bonds, etc.: | | | | |
| | | Own mortgage bonds, etc. | 56.3 | 106.7 | 63.1 | 107.6 |
| | | Other mortgage bonds | (123.2) | 59.9 | (126.4) | 59.9 |
| | | Government bonds | 117.7 | 62.4 | 110.7 | 65.8 |
| | | Other bonds, etc. | (10.7) | (5.3) | (10.7) | (5.3) |
| | | Market value adjustment of shares, etc. | 41.2 | 218.4 | 41.2 | 218.4 |
| | | Market value adjustment of mortgage deeds, etc. | 40.3 | 47.6 | 40.3 | 47.6 |
| | | Exchange rate adjustment of foreign currency | 6.3 | 20.3 | 6.3 | 20.8 |
| | | Market value adjustment of other financial instruments | 34.2 | 24.1 | 34.2 | 24.1 |
| 8 | | Total | 162.1 | 534.1 | 158.7 | 538.9 |
| 8 | | Other operating income | 113.4 | 100.1 | 39.9 | 28.0 |
| | | PROFIT ON FINANCIAL OPERATIONS | 3,207.7 | 3,341.4 | 3,110.5 | 3,258.9 |

| | | | | | |
|---|--|------------------|----------------|----------------|----------------|
| | Staff costs, etc. and administrative expenses: | | | | |
| 2 | Salaries and remuneration to Supervisory Board, Executive Board and Assembly of Representatives | (13.7) | (13.7) | (13.7) | (13.7) |
| | Payroll costs: | | | | |
| 3 | Wages and salaries | (487.1) | (461.7) | (467.9) | (446.8) |
| | Pensions | (55.4) | (50.2) | (54.8) | (49.9) |
| | Social security costs | (52.4) | (47.3) | (51.5) | (46.6) |
| 4 | Other administrative expenses | (434.9) | (347.3) | (404.1) | (322.2) |
| | Total | (1,043.5) | (920.2) | (992.0) | (879.2) |
| | Depreciation of intangible and tangible assets: | | | | |
| | Depreciation of intangible assets | (4.5) | (5.3) | (3.0) | (0.4) |
| | Depreciation of own properties | (1.6) | (1.6) | (1.6) | (1.6) |
| | Depreciation of machinery and equipment | (80.6) | (60.1) | (68.7) | (50.1) |
| | Total | (86.7) | (67.0) | (73.3) | (52.1) |
| 5 | Other operating expenses | (132.7) | (130.1) | (108.6) | (110.0) |
| 6 | Provisions for bad and doubtful debts | 98.9 | 102.6 | 99.7 | 99.7 |
| | Value adjustment of participating interests: | | | | |
| | Value adjustment of interests in associated undertakings and other significant interests | 13.6 | 1.0 | 13.7 | 1.0 |
| | Value adjustment of interests in subsidiary undertakings | 3.0 | 4.2 | 7.1 | 9.4 |
| | Total | 16.6 | 5.2 | 20.8 | 10.4 |
| | PROFIT ON ORDINARY ACTIVITIES | 2,060.3 | 2,331.9 | 2,057.1 | 2,327.7 |
| | Extraordinary income | 3.9 | 5.5 | 3.9 | 5.5 |
| 7 | Extraordinary expenses | (67.0) | (60.2) | (65.1) | (59.2) |
| | PROFIT BEFORE TAX | 1,995.2 | 2,277.2 | 1,995.9 | 2,274.0 |
| | Tax: | | | | |
| | Estimated tax on the year's profit | (676.0) | (763.2) | (675.0) | (760.0) |
| | Deferred income tax | (0.2) | 51.0 | – | 51.0 |
| | Adjustment of tax estimated in prior years | 14.3 | (2.0) | 14.3 | (2.0) |
| | Total | (661.9) | (714.2) | (660.7) | (711.0) |
| | PROFIT INCLUDING MINORITY INTERESTS | 1,335.2 | 1,563.0 | 1,335.2 | 1,563.0 |
| | Minority interests | (0.1) | – | – | – |
| | NET PROFIT | 1,335.2 | 1,563.0 | 1,335.2 | 1,563.0 |
| | DISTRIBUTION OF PROFIT: | | | | |
| | Net profit | | | 1,335.2 | 1,563.0 |
| | Transferred from reserves subject to a reimbursement obligation in pre-1972 series | | | 156.9 | 163.4 |
| | Transferred from other reserves | | | 1,375.9 | – |
| | Total amount available for distribution | | | 2,868.0 | 1,726.4 |
| | The amount is distributed as follows: | | | | |
| | Allocated to shareholders' equity: Allocated to reserves in series | | | 368.0 | 562.5 |
| | Allocated to other reserves | | | – | 1,163.9 |
| | Applied for other purposes: Dividend to Kapital Holding A/S | | | 2,500.0 | – |
| | Total | | | 2,868.0 | 1,726.4 |

Balance Sheet

| as at 31 December 1998 | Note | ASSETS | Amounts in DKK million | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|------------------------|------|--|------------------------|--------------------------|------------------|------------------------|------------------|
| | | | | 1998 | 1997 | 1998 | 1997 |
| | | Cash in hand, etc. | | 4.9 | 2.1 | 4.9 | 2.1 |
| | 9 | Balances due from other credit institutions | | 19,238.2 | 17,461.2 | 24,878.8 | 17,503.5 |
| | | Lending: | | | | | |
| | 10 | Mortgage loans | | 317,192.8 | 303,678.5 | 311,898.7 | 303,601.9 |
| | | Other loans | | 381.7 | 789.9 | 381.1 | 789.9 |
| | 12 | Outstanding amounts on non-foreclosures | | 496.3 | 549.9 | 491.2 | 546.8 |
| | | Total | | 318,070.8 | 305,018.3 | 312,771.0 | 304,938.6 |
| | | Bonds, etc.: | | | | | |
| | | Own mortgage bonds, etc. | | 10,607.2 | 7,724.0 | 10,607.2 | 7,556.7 |
| | | Other mortgage bonds | | 8,501.3 | 4,717.0 | 8,081.8 | 4,717.0 |
| | | Government bonds | | 11,017.3 | 5,712.6 | 9,933.1 | 5,712.6 |
| | | Other bonds, etc. | | 5,314.4 | 8,297.8 | 5,284.4 | 8,297.8 |
| | 13 | Total | | 35,440.2 | 26,451.4 | 33,906.5 | 26,284.1 |
| | 14 | Shares, etc. | | 912.3 | 1,000.8 | 912.3 | 1,000.8 |
| | 15 | Participating interests in associated undertakings and other significant interests | | 581.6 | 35.8 | 581.4 | 35.8 |
| | | Participating interests in subsidiary undertakings: | | | | | |
| | | Share and guarantee capital in credit institutions | | – | – | 382.6 | 181.0 |
| | | Participating interests in other undertakings | | 21.7 | 22.7 | 85.2 | 84.2 |
| | 16 | Total | | 21.7 | 22.7 | 467.8 | 265.2 |
| | 17 | Intangible assets | | 14.6 | 4.5 | 10.9 | 0.7 |
| | | Tangible fixed assets: | | | | | |
| | 18 | Own properties | | 705.1 | 660.7 | 705.1 | 660.7 |
| | 19 | Foreclosed properties | | 36.6 | 25.8 | 36.6 | 25.8 |
| | 20 | Machinery and equipment | | 138.0 | 128.8 | 118.0 | 108.9 |
| | | Total | | 879.7 | 815.3 | 859.7 | 795.4 |
| | 21 | Other assets | | 381.1 | 170.5 | 366.0 | 154.1 |
| | 22 | Accruals and deferred expenses | | 955.4 | 945.8 | 938.8 | 935.4 |
| | | TOTAL ASSETS | | 376,500.5 | 351,928.4 | 375,698.1 | 351,915.7 |

| Note | LIABILITIES | Amounts in DKK million | 1998 | 1997 | 1998 | 1997 |
|------|---|------------------------|------------------|------------------|------------------|------------------|
| 23 | Balances due to other credit institutions | | 6,548.3 | 1,229.3 | 6,499.0 | 1,226.8 |
| 24 | Mortgage bonds and other securities issued against mortgages on real property | | 338,890.2 | 321,856.1 | 338,890.2 | 321,856.1 |
| 25 | Other liabilities | | 4,040.5 | 1,133.8 | 4,028.5 | 1,131.3 |
| 26 | Accruals and deferred income | | 6,697.7 | 6,954.4 | 6,691.9 | 6,946.7 |
| | Provisions for liabilities and charges: | | | | | |
| | Provisions for pensions and similar commitments | | 7.9 | 9.4 | 7.9 | 9.4 |
| | Provisions for deferred tax | | 0.2 | – | – | – |
| | Reserves subject to a reimbursement obligation in pre-1972 series | | 1,271.4 | 1,428.3 | 1,271.4 | 1,428.3 |
| | Total | | 1,279.5 | 1,437.7 | 1,279.3 | 1,437.7 |
| 27 | Subordinated loan capital | | 3,367.5 | 3,000.0 | 3,000.0 | 3,000.0 |
| | Minority interests | | 367.6 | – | – | – |
| | Shareholders' equity: | | | | | |
| | Share capital | | 500.0 | 500.0 | 500.0 | 500.0 |
| | Reserves: | | | | | |
| | Reserves in series subject to a reimbursement obligation | | 284.6 | 283.7 | 284.6 | 283.7 |
| | Reserves in series not subject to a reimbursement obligation | | 3,907.1 | 4,928.3 | 3,907.1 | 4,928.3 |
| | Other reserves | | 10,617.5 | 10,605.1 | 10,617.5 | 10,605.1 |
| 28 | Total | | 15,309.2 | 16,317.1 | 15,309.2 | 16,317.1 |
| 29 | TOTAL LIABILITIES | | 376,500.5 | 351,928.4 | 375,698.1 | 351,915.7 |
| 30 | Guarantees | | 82.3 | 93.2 | 82.3 | 93.2 |
| | Other commitments: | | | | | |
| | Forward purchases of assets | | 5,282.8 | 3,052.1 | 5,282.8 | 3,052.1 |
| 31 | Other commitments | | 540.8 | 89.9 | 538.7 | 87.2 |
| | Total | | 5,823.6 | 3,142.0 | 5,821.5 | 3,139.3 |

Note 1-10

| Note | Amounts in DKK million | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|----------|---|--------------------------|----------------|------------------------|----------------|
| | | 1998 | 1997 | 1998 | 1997 |
| 1 | Other interest receivable | | | | |
| | Commitment fees on new loans | 174.5 | 139.4 | 174.5 | 139.4 |
| 2 | Salaries and remuneration to Supervisory Board, Executive Board and Assembly of Representatives | | | | |
| | Supervisory Board | (2.5) | (2.3) | (2.5) | (2.3) |
| | Executive Board ¹⁾ | (8.0) | (8.3) | (8.0) | (8.3) |
| | Local councils | (3.2) | (3.1) | (3.2) | (3.1) |
| | Total | (13.7) | (13.7) | (13.7) | (13.7) |
| 3 | Wages and salaries | | | | |
| | Average number of employees converted to full-time jobs | 1,396 | 1,360 | 1,345 | 1,317 |
| 4 | Other administrative expenses | | | | |
| | Office and computer equipment | (207.2) | (164.0) | (200.9) | (159.9) |
| | Information | (89.4) | (84.5) | (73.3) | (69.6) |
| | Other expenses | (138.3) | (98.8) | (129.9) | (92.7) |
| | Total | (434.9) | (347.3) | (404.1) | (322.2) |
| 5 | Other operating expenses | | | | |
| | Fees for auditors, supervision, etc. | (19.3) | (18.3) | (16.8) | (17.8) |
| | Premises, including rent of own premises | (108.2) | (107.0) | (90.5) | (90.9) |
| | Other operating expenses | (5.2) | (4.8) | (1.3) | (1.3) |
| | Total | (132.7) | (130.1) | (108.6) | (110.0) |
| | Total fees to the auditors appointed by the Annual General Meeting comprising audit of the annual accounts and consolidated accounts and other services | (5.3) | (6.6) | (5.0) | (6.2) |
| | Of which services other than auditing | (2.6) | (2.7) | (2.6) | (2.6) |
| 6 | Provisions for bad and doubtful debts | | | | |
| | Realised losses with prior provisions | (133.3) | (594.7) | (129.2) | (576.7) |
| | Realised losses without prior provisions | (20.4) | (50.2) | (20.4) | (50.2) |
| | Recoveries of loans written off in previous years | 67.0 | 82.1 | 67.0 | 82.1 |
| | Movements in provisions: | | | | |
| | Provisions at beginning of year ²⁾ | 973.9 | 1,639.3 | 968.9 | 1,586.3 |
| | Provisions at end of year | (788.3) | (973.9) | (786.6) | (941.8) |
| | Total | 98.9 | 102.6 | 99.7 | 99.7 |
| | Provisions at end of year deducted from the following asset items: | | | | |
| | Mortgage loans | (501.6) | (622.4) | (501.6) | (608.3) |
| | Other loans | (54.1) | (71.6) | (54.1) | (71.6) |
| | Outstanding balances on non-foreclosures | (210.0) | (247.5) | (210.0) | (235.4) |
| | Foreclosed properties | (15.5) | (20.3) | (15.5) | (20.3) |
| | Other assets | (7.1) | (12.1) | (5.4) | (6.2) |
| | Total | (788.3) | (973.9) | (786.6) | (941.8) |

1) Salaries and remuneration to executives who have left the company during the year is included until the severance date.

2) Effective 1 January 1998, DKK 27.1 million was transferred from Kredit Danmark S.A. to Realkredit Danmark A/S

| | | | | | |
|-----------|--|------------------|------------------|------------------|------------------|
| 7 | Extraordinary expenses | | | | |
| | Write-downs on properties | (57.3) | (15.3) | (57.3) | (15.3) |
| | Leasehold improvements | (7.7) | (34.3) | (7.7) | (34.3) |
| | Other extraordinary expenses | (2.0) | (10.6) | (0.1) | (9.6) |
| | Total | (67.0) | (60.2) | (65.1) | (59.2) |
| 8 | Income distributed by country | | | | |
| | Total interest income, etc., share dividends, etc., fees and other commission income, etc., market value adjustment of securities and foreign exchange, etc., and other operating income distributed geographically: | | | | |
| | Denmark | 24,614.7 | 25,012.1 | 24,493.9 | 24,941.9 |
| | France | 7.0 | 14.1 | 7.0 | 2.9 |
| | UK | 17.6 | 29.4 | 17.6 | 29.4 |
| | Germany | 5.9 | 6.6 | 5.9 | 6.6 |
| | Total | 24,645.2 | 25,062.2 | 24,524.4 | 24,980.8 |
| 9 | Balances due from other credit institutions | | | | |
| | Reverse transactions | 1,916.6 | 908.1 | 1,916.6 | 908.1 |
| | Funding of BG Kredit A/S | – | – | 5,294.1 | – |
| | Other balances due | 17,321.6 | 16,553.1 | 17,668.1 | 16,595.4 |
| | Total | 19,238.2 | 17,461.2 | 24,878.8 | 17,503.5 |
| | Breakdown by term to maturity: | | | | |
| | On demand | 6,716.7 | 6,841.8 | 6,680.7 | 6,803.5 |
| | 3 months inclusive | 12,111.5 | 10,549.4 | 12,120.2 | 10,549.4 |
| | < 3 months through 1 year | 410.0 | 70.0 | 478.5 | 150.6 |
| | < 1 year | – | – | 5,599.4 | – |
| | Including separate outstanding amounts to be used for drawing of bonds for redemption at par | 7,315.6 | 2,565.0 | 7,315.6 | 2,565.0 |
| 10 | Mortgage loans | | | | |
| | Balance at beginning of year | 304,071.5 | 293,473.7 | 303,980.8 | 293,356.4 |
| | New loans | 89,731.7 | 67,570.6 | 84,488.5 | 67,570.6 |
| | Index adjustment of index-linked loans | 1,166.0 | 1,248.9 | 1,166.0 | 1,248.9 |
| | Currency translation, foreign countries | (9.0) | 41.3 | (9.0) | 41.1 |
| | Refinancing of interest reset loans | 14.3 | (5.2) | 14.3 | (5.2) |
| | | 394,974.5 | 362,329.3 | 389,640.6 | 362,211.8 |
| | Ordinary repayments | (11,876.7) | (11,109.4) | (11,853.1) | (11,102.9) |
| | Redemptions and extraordinary repayments | (65,606.6) | (47,148.4) | (65,590.4) | (47,128.1) |
| | Balance at end of year ³⁾ | 317,491.2 | 304,071.5 | 312,197.1 | 303,980.8 |
| | Loans transferred to foreclosed properties | (17.1) | (7.1) | (17.1) | (7.1) |
| | Provisions for losses | (501.6) | (622.4) | (501.6) | (608.3) |
| | Loans taken over by The Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark | 220.3 | 236.5 | 220.3 | 236.5 |
| | Total | 317,192.8 | 303,678.5 | 311,898.7 | 303,601.9 |

Note 10-16

| Note | Amounts in DKK million | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|--|------------------------|--------------------------|--------------|--------------------------|--------------|
| | | 1998 | 1997 | 1998 | 1997 |
| 3 ⁾ Of this, amortisation accounts for cash loans | | 20,553.3 | 23,337.7 | 20,549.6 | 23,337.7 |
| Total sum of mortgage deed principals | | 341,409.2 | 325,132.2 | 336,095.1 | 325,008.2 |
| Number of loans | | 654,495 | 708,886 | 646,425 | 708,801 |
| Apart from mortgages on properties, the company's loans are backed by government, municipal and insurance guarantees of Furthermore, bank pass books, bonds and guarantees have been lodged as supplementary security in the amount of | | 17,575.2 | 16,550.1 | 17,575.2 | 16,550.1 |
| In addition, a number of indemnities not specifying amounts have been lodged. | | 14,674.7 | 6,851.9 | 11,800.8 | 6,851.9 |
| 11 Loans, etc. to directors | | | | | |
| As at the end of the year, loans, etc. totalling DKK 19.3 million had been provided to members of the Supervisory Board, and loans etc. totalling DKK 3.8 million had been provided to members of the Executive Board. | | | | | |
| 12 Outstanding amounts on non-foreclosures | | | | | |
| Arrears | | 498.1 | 502.5 | 493.0 | 487.3 |
| Outlays, including mortgage payments | | 208.2 | 294.9 | 208.2 | 294.9 |
| Provisions for losses | | (210.0) | (247.5) | (210.0) | (235.4) |
| Total | | 496.3 | 549.9 | 491.2 | 546.8 |
| 13 Bonds, etc. | | | | | |
| Including separated domestic bonds to be used for drawing bonds for redemption at par | | 471.4 | 5,885.9 | 471.4 | 5,885.9 |
| "Other bonds" include bonds for drawing or redemption in the amount of | | 5,095.8 | 7,876.9 | 5,095.8 | 7,876.9 |
| Security has been provided to Danmarks Nationalbank, The Gurarantee Fund for Danish Options and Futures and others by way of bonds with a book value of | | 3,664.2 | 1,196.9 | 3,664.2 | 1,196.9 |
| Bonds etc. have been sold in connection with repo transactions; the book value of these bonds is | | 6,500.0 | 1,257.6 | 6,500.0 | 1,257.6 |
| Unsettled reverse transactions amount to | | 539.0 | 639.8 | 539.0 | 639.8 |
| Unsettled repo transactions amount to | | 652.2 | 1,311.2 | 652.2 | 1,311.2 |
| 14 Shares, etc. | | | | | |
| Undertakings in which the consolidated group holds at least 10 per cent of the capital, and which are not associated or group undertakings: | | | | | |
| Ejendomsaktieselskabet Springbanen, Copenhagen | | | | Share- holding 18% | |
| Håndværkets Byfornyelsesselskab Smba, Copenhagen | | | | 18% | |

15 Participating interests in associated undertakings and other significant interests

Interests in associated undertakings and other significant interests comprise the following undertakings, none of which are credit institutions:

| | Share holding | Consolidated Group's | |
|--|---------------|----------------------|------|
| | | Receivable | Debt |
| Danmarks Transport Center A/S, Vejle | 20% | 115.2 | – |
| A/S Det Alm. Danske Ejendoms Selskab, Lyngby-Taarbæk | 11% | 473.2 | – |
| Ejendomsinteressentskabet Tuborg Nord B, Gentofte | 20% | 208.0 | – |
| Hercules Estates A/S, Copenhagen | 25% | – | – |
| Horsens Grundfinansiering A/S, Horsens | 12% | – | – |
| Idéudviklingsselskabet A/S Baneby, Copenhagen | 27% | – | – |
| Investeringsforeningen Gudme Raaschou, Copenhagen | 48% | – | – |
| Investeringsforeningen Schroder, Copenhagen | 72% | – | – |
| Realkreditnettet A/S, Copenhagen | 25% | – | – |
| Thomas B. Thrigesgade Odense ApS, Odense | 20% | – | – |

16 Participating interests in group undertakings

The consolidated accounts include the following subsidiaries:

| | Share holding | Latest accounts: | |
|--|---------------|------------------|--------|
| | | Result | Equity |
| BG Kredit A/S, Hvidovre | 51% | 0.3 | 750.3 |
| home a/s, Århus | 100% | 4.6 | 59.1 |
| home i/s, Århus | 100% | 0.1 | 1.9 |
| Mægler-service Danmark A/S, Copenhagen | 100% | 0.1 | 3.1 |

In addition, shares are held in the following non-consolidated subsidiary undertakings:

| Undertakings with no commercial activity: | Share holding | Consolidated Group's | | Latest accounts: | |
|---|---------------|----------------------|------|------------------|--------|
| | | Receivable | Debt | Result | Equity |
| A/S RD nr. 3067, Copenhagen | 100% | – | 2.2 | 0.3 | 2.2 |
| A/S RD nr. 3066, Copenhagen | 100% | – | 1.2 | – | 1.2 |
| ApS RD nr. 3065, Copenhagen | 100% | – | 10.9 | 0.3 | 10.9 |

Undertakings acquired as a provision to contain losses, total book value DKK 7.4 million:

| | | | | | |
|--|------|------|---|-------|-------|
| Danomega SARL, Paris , including subsidiary undertakings | 100% | 34.1 | – | (0.4) | 0.4 |
| Ejendomsselskabet af 6/5 1991 ApS, Århus | 100% | 0.1 | – | 0.2 | 0.4 |
| Omegadane SARL, Paris | 100% | 1.5 | – | (0.8) | (0.8) |
| Skævinge Boligselskab A/S, Copenhagen | 100% | 14.2 | – | 0.5 | 7.0 |

Note 17-26

| Note | Amounts in DKK million | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|-----------|---|--------------------------|----------------|------------------------|----------------|
| | | 1998 | 1997 | 1998 | 1997 |
| 17 | Intangible assets | | | | |
| | Intangible assets solely comprise leasehold improvements. | | | | |
| 18 | Own properties | | | | |
| | Cost at beginning of year | 869.7 | 758.0 | 869.7 | 758.0 |
| | Additions | 103.3 | 117.2 | 103.3 | 117.2 |
| | Disposals | – | (5.5) | – | (5.5) |
| | Cost at end of year | 973.0 | 869.7 | 973.0 | 869.7 |
| | Depreciation and write-downs at beginning of year | (209.0) | (192.1) | (209.0) | (192.1) |
| | Depreciation | (1.6) | (1.6) | (1.6) | (1.6) |
| | Write-downs | (57.3) | (15.3) | (57.3) | (15.3) |
| | Depreciation and write-downs at end of year | (267.9) | (209.0) | (267.9) | (209.0) |
| | Total | 705.1 | 660.7 | 705.1 | 660.7 |
| | Property value at 1 January | 491.0 | 532.2 | 491.0 | 532.2 |
| 19 | Foreclosed properties | | | | |
| | Realkredit Danmark loans | 17.1 | 7.1 | 17.1 | 7.1 |
| | Third party mortgage debt | – | 0.3 | – | 0.3 |
| | Outlays, including mortgage payments | 35.0 | 38.7 | 35.0 | 38.7 |
| | Provisions for losses | (15.5) | (20.3) | (15.5) | (20.3) |
| | Total | 36.6 | 25.8 | 36.6 | 25.8 |
| 20 | Machinery and equipment | | | | |
| | Cost at beginning of year | 368.9 | 360.2 | 305.2 | 301.6 |
| | Additions | 93.7 | 101.4 | 81.0 | 91.4 |
| | Disposals | (71.2) | (92.7) | (64.0) | (87.8) |
| | Cost at end of year | 391.4 | 368.9 | 322.2 | 305.2 |
| | Depreciation at beginning of year | (240.1) | (271.6) | (196.3) | (233.2) |
| | Depreciation | (80.0) | (51.5) | (68.2) | (41.5) |
| | Reversed depreciation and write-downs | 66.7 | 83.0 | 60.3 | 78.4 |
| | Depreciation at end of year | (253.4) | (240.1) | (204.2) | (196.3) |
| | Total | 138.0 | 128.8 | 118.0 | 108.9 |
| 21 | Other assets | | | | |
| | Inter-company accounts with group undertakings | 66.6 | 8.3 | 67.7 | 9.2 |
| | Other assets | 314.5 | 162.2 | 298.3 | 144.9 |
| | Total | 381.1 | 170.5 | 366.0 | 154.1 |

| | | | | | |
|-----------|--|------------------|------------------|------------------|------------------|
| 22 | Accruals and deferred expenses | | | | |
| | Interest and contributions accrued but not yet payable, mortgage loans | 81.9 | 105.0 | 81.6 | 103.9 |
| | Other interest accrued but not yet payable | 825.7 | 797.3 | 810.5 | 788.2 |
| | Other accruals | 47.8 | 43.5 | 46.7 | 43.3 |
| | Total | 955.4 | 945.8 | 938.8 | 935.4 |
| 23 | Balances due to other credit institutions: | | | | |
| | Breakdown by term to maturity | | | | |
| | On demand | 49.3 | 2.5 | – | – |
| | 3 months inclusive | 6,499.0 | 1,226.8 | 6,499.0 | 1,226.8 |
| | Total | 6,548.3 | 1,229.3 | 6,499.0 | 1,226.8 |
| 24 | Mortgage bonds and other securities issued against mortgages on real property | | | | |
| | Balance at beginning of year | 321,856.1 | 307,515.8 | 321,856.1 | 307,515.8 |
| | Additions, bonds | 91,301.9 | 69,029.8 | 91,301.9 | 69,029.8 |
| | Index adjustment of index-linked bonds | 1,169.3 | 1,252.3 | 1,169.3 | 1,252.3 |
| | Currency translation, foreign loans | (0.3) | 0.2 | (0.3) | 0.2 |
| | Additions, refunding | 11,768.7 | 1,666.4 | 11,768.7 | 1,666.4 |
| | | 426,095.7 | 379,464.5 | 426,095.7 | 379,464.5 |
| | Drawings and prepayments of bonds | (78,568.1) | (47,635.7) | (78,568.1) | (47,635.7) |
| | Redemptions and extraordinary repayments | (8,637.4) | (9,972.7) | (8,637.4) | (9,972.7) |
| | Total | 338,890.2 | 321,856.1 | 338,890.2 | 321,856.1 |
| | Of which pre-issued | 5,260.4 | 2,846.0 | 5,260.4 | 2,846.0 |
| | Drawn on 2 January 1999 | 24,676.3 | 23,135.6 | 24,676.3 | 23,135.6 |
| | Of which to be refunded | (11,244.1) | (10,887.1) | (11,244.1) | (10,887.1) |
| | Net drawing | 13,432.2 | 12,248.5 | 13,432.2 | 12,248.5 |
| 25 | Other liabilities | | | | |
| | Dividends payable to Kapital Holding A/S | 2,500.0 | – | 2,500.0 | – |
| | Loan redemptions | 52.6 | 17.7 | 52.5 | 17.7 |
| | Repo transactions | – | 34.1 | – | 34.1 |
| | Repurchase obligations on reverse transactions | 877.2 | 556.6 | 877.2 | 556.6 |
| | Tax payable | 73.0 | 100.0 | 73.0 | 100.0 |
| | Inter-company accounts with group undertakings | 59.7 | 113.7 | 63.1 | 123.1 |
| | Other liabilities | 478.0 | 311.7 | 462.7 | 299.8 |
| | Total | 4,040.5 | 1,133.8 | 4,028.5 | 1,131.3 |
| | Realkredit Danmark A/S has a deferred tax asset of approximately DKK 200 million. The amount has not been included in the balance sheet. | | | | |
| 26 | Accruals and deferred income | | | | |
| | Interest accrued but not yet payable, mortgage bonds, etc. | 6,276.1 | 6,665.4 | 6,276.1 | 6,665.4 |
| | Other interest accrued but not yet payable | 408.6 | 268.0 | 408.6 | 268.0 |
| | Other accruals | 13.0 | 21.0 | 7.2 | 13.3 |
| | Total | 6,697.7 | 6,954.4 | 6,691.9 | 6,946.7 |

Note 27-31

Note

27 Subordinated loan capital

Realkredit Danmark A/S has raised subordinated loan capital in the amount of DKK 3,000 million. The loan is a bullet loan maturing on 15 April 2004 at par. However, RD can redeem the loan prematurely as from 15 April 2001. Until then, the loan is subject to interest at 10.2 per cent payable annually.

BG Kredit A/S has raised subordinated loan capital in the amount of DKK 367.5 from BG Bank A/S. The loan is a bullet loan maturing on 31 December 2006 at par. The loan is subject to interest at a floating rate.

The loan capital is included in the parent company's capital base in the amount of DKK 3,000 and in the group's capital base in the amount of DKK 3,367.5.

28 Shareholders' equity

The DKK 500.0 million share capital of Realkredit Danmark A/S comprises 5,000,000 shares of DKK 100, and is fully owned by Kapital Holding A/S.

Movements in shareholders' equity:

| | Share- capital | Reserves in series subject to a reimburse- ment obligation | Reserves in series not subject to a reimburse- ment obligation | Other reserves | Total 1998 | Total 1997 |
|--|-------------------|--|--|-------------------|-----------------|-----------------|
| Balance at beginning of year | 500.0 | 283.7 | 4,928.3 | 10,605.1 | 16,317.1 | 14,590.7 |
| Transferred to distribution of profit | – | – | – | (1,375.9) | (1,375.9) | – |
| Allocated from distribution of profit | – | 0.9 | 367.1 | – | 368.0 | 1,726.4 |
| Transferred from series with surplus coverage | – | – | (1,394.3) | 1,394.3 | – | – |
| Transferred to series with insufficient coverage | – | – | 6.0 | (6.0) | – | – |
| Balance at end of year | 500.0 | 284.6 | 3,907.1 | 10,617.5 | 15,309.2 | 16,317.1 |

| | | Realkredit Danmark Group | | Realkredit Danmark A/S | |
|------------------------|--|--------------------------|-------------|------------------------|-------------|
| Amounts in DKK million | | 1998 | 1997 | 1998 | 1997 |
| 29 | Total liabilities | | | | |
| | Amounts falling due after more than five years: | | | | |
| | Debt | 244,836.5 | 230,858.9 | 244,836.5 | 230,858.9 |
| | Subordinated loan capital | 3,367.5 | 3,000.0 | 3,000.0 | 3,000.0 |
| 30 | Guarantees | | | | |
| | The amount covers liability for the capital resources of the Danish Securities Centre. | | | | |
| 31 | Other commitments | | | | |
| | Realkredit Danmark guarantees pension fund commitments which are being phased out. | | | | |
| | Together with the other companies in the Danish tax pool, the company is jointly and severally liable for the tax liability under the pooled taxation arrangement. | | | | |
| | Liability for errors of other account-holding banks with the Danish Securities Centre | 38.3 | 43.2 | 38.3 | 43.2 |
| | Joint and several liability for participation in partnerships etc. | 443.4 | 0.6 | 444.9 | 2.1 |
| | Capitalised value of rental and lease commitments relating to premises and computer equipment | 59.1 | 46.1 | 55.5 | 41.9 |
| | Total | 540.8 | 89.9 | 538.7 | 87.2 |

Note

32-33

32 Intercompany transactions

Realkredit Danmark A/S has had the following intercompany income and expenses with a value of more than DKK 0.5 million with companies directly or indirectly affiliated with the institution:

The company has received interest from BG Kredit A/S on funding of mortgage lending and subordinated loan capital, etc. In addition, BG Kredit A/S has paid fees, etc. for referral of loans as well as management fees.

Realkredit Danmark A/S has received and paid interest and fees, etc. on accounts with BG Bank A/S and Kapital Holding A/S. Commission has been paid to home a/s.

Finally, the company has received interest on mortgage loans from A/S Det Alm. Danske Ejendoms Selskab, Ejendomsinteressentskabet Tuborg Nord B, Danmarks Transport Center A/S and Skæving Boligselskab A/S.

33 Financial instruments

| | Nominal value | Net | Market value Positive | Negative |
|-------------------------------------|------------------|--------|--------------------------|----------|
| Foreign exchange contracts | | | | |
| Forward currency contracts sold | 393.2 | 4.3 | 4.3 | |
| Interest rate contracts | | | | |
| Forward securities contracts bought | 5,376.3 | 9.7 | 9.8 | (0.1) |
| Forward securities contracts sold | 2,574.9 | (29.3) | – | (29.3) |
| Forward rate agreements bought | 2,225.0 | (2.8) | 0.2 | (3.0) |
| Forward rate agreements sold | 2,800.0 | 5.0 | 5.0 | – |
| Spot transactions | | | | |
| Spot currency transactions bought | 179.7 | (0.9) | – | (0.9) |
| Spot securities transactions bought | 11,193.5 | (0.9) | 3.5 | (4.4) |
| Spot securities transactions sold | 11,414.2 | 0.9 | 4.7 | (3.8) |

Cash Flow Statement

1 January – 1 December 1998

Amounts in DKK million

Realkredit Danmark Group

| | 1998 | 1997 |
|--|-------------------|-------------------|
| Cash flow, operating activities: | | |
| Profit before tax | 1,997.2 | 2,277.2 |
| Adjustment for non-cash operating items: | | |
| Market value adjustment of securities | (243.2) | (631.3) |
| Depreciation and write-downs | 144.0 | 82.3 |
| Decrease of provisions for bad and doubtful debts | (185.6) | (665.4) |
| Tax paid | (686.3) | (690.1) |
| (Increase)/decrease in accrued interest income and outstanding amounts, etc. | (122.9) | 226.2 |
| (Decrease)/increase in accrued interest expenses and amounts owed, etc. | 302.0 | 506.6 |
| Total | 1,205.2 | 1,105.5 |
| Cash flow, investing activities: | | |
| (Purchase)/sale of securities | (9,201.9) | (5,521.3) |
| Change in repo and reverse transactions | 4,601.5 | 1,285.5 |
| (Increase)/decrease in other loans | 376.1 | 227.4 |
| Net investment in other fixed assets | (207.7) | (213.3) |
| Total | (4,432.0) | (4,221.7) |
| (Increase)/decrease in mortgage lending | (13,403.5) | (10,649.2) |
| Increase/(decrease) in funding | 17,401.6 | 14,340.3 |
| Movement in cash and cash equivalents | 771.3 | 574.9 |
| Cash and cash equivalents at 1 January | 16,555.2 | 15,980.3 |
| Cash and cash equivalents at 31 December | 17,326.5 | 16,555.2 |
| Cash and equivalents at 31 December 1998 comprise: | | |
| Cash at bank and in hand, etc. | 4.9 | 2.1 |
| Balances due from other credit institutions, see note 9 | 17,321.6 | 16,553.1 |
| Total | 17,326.5 | 16,555.2 |

Series Accounts 1998

Pursuant to the Order on the Presentation of Series Accounts by Mortgage Credit Institutions, Realkredit Danmark A/S's accounts are specified for the individual underlying mortgage credit associations as follows:

| Note | Amounts in DKK million | Jydsk Grundejer-Kreditforening | Ny jydsk Kjøbstad-Creditforening | Ny Jysk Grundejer-Kreditforening | Østifternes Kreditforening | Grundejernes Hypotekforening | Husmandshypotekforeningen for Danmark | Provins hypotekforeningen for Danmark | Østifternes Land-Hypotekforening | Series not subject to a reimbursement obligation | Other reserves | Total |
|----------|---------------------------------------|--------------------------------|----------------------------------|----------------------------------|----------------------------|------------------------------|---------------------------------------|---------------------------------------|----------------------------------|--|------------------|------------------|
| | Profit and loss account | | | | | | | | | | | |
| | Income from lending | 5.6 | 4.7 | 0.5 | 12.4 | 1.5 | 0.1 | 0.7 | 0.1 | 706.5 | 733.7 | 1,465.8 |
| | Interest on subordinated loan capital | – | – | – | – | – | – | – | – | (185.1) | (120.9) | (306.0) |
| 1 | Net interest, etc. | 21.4 | 22.2 | 12.0 | 66.4 | 9.9 | – | 2.7 | 0.3 | 599.7 | 1,139.3 | 1,873.9 |
| 1 | Administrative expenses, etc. | (21.6) | (22.7) | (2.1) | (74.1) | (3.0) | (2.6) | (4.4) | (1.1) | (556.6) | (293.3) | (981.5) |
| | Provisions for bad and doubtful debts | (0.6) | – | (2.3) | 0.2 | 0.1 | – | 0.1 | – | 192.4 | (90.2) | 99.7 |
| | Taxation | (1.7) | (1.5) | (2.7) | (1.9) | (2.9) | 0.8 | 0.3 | 0.2 | (258.9) | (392.4) | (660.7) |
| 2 | Net profit | 3.1 | 2.7 | 5.4 | 3.0 | 5.6 | (1.7) | (0.6) | (0.5) | 498.0 | 976.2 | 1,491.2 |
| | Balance sheet – assets | | | | | | | | | | | |
| | Mortgage credit loans, etc. | 1,908.4 | 1,598.9 | 78.3 | 4,631.2 | 213.1 | 9.2 | 118.5 | 3.3 | 161,698.3 | 147,360.3 | 317,619.5 |
| | Other assets | 418.6 | 446.3 | 173.5 | 1,392.7 | 144.7 | 2.2 | 47.5 | 3.7 | 23,216.6 | 32,232.8 | 58,078.6 |
| | Total assets | 2,327.0 | 2,045.2 | 251.8 | 6,023.9 | 357.8 | 11.4 | 166.0 | 7.0 | 184,914.9 | 179,593.1 | 375,698.1 |
| | Balance sheet – liabilities | | | | | | | | | | | |
| | Issued bonds | 2,028.1 | 1,745.5 | 97.0 | 5,137.9 | 232.5 | 10.9 | 132.6 | 3.8 | 175,416.5 | 160,532.5 | 345,337.3 |
| | Other liabilities | 51.1 | 44.9 | 5.5 | 132.3 | 7.9 | 0.2 | 3.7 | 0.2 | 4,089.4 | 3,945.0 | 8,280.2 |
| | Dividend payable | – | – | – | – | – | – | – | – | – | 2,500.0 | 2,500.0 |
| | Subordinated loan capital | – | – | – | – | – | – | – | – | 1,501.9 | 1,498.1 | 3,000.0 |
| 3 | Equity capital | 247.8 | 254.8 | 149.3 | 753.7 | 117.4 | 0.3 | 29.7 | 3.0 | 3,907.1 | 11,117.5 | 16,580.6 |
| | Total liabilities | 2,327.0 | 2,045.2 | 251.8 | 6,023.9 | 357.8 | 11.4 | 166.0 | 7.0 | 184,914.9 | 179,593.1 | 375,698.1 |

Note

1 Distribution policies

Pursuant to section 3 (1) and (2) of the Order on the Presentation of Series Accounts by Mortgage Credit Institutions, a share of net interest, etc. equivalent to the ratio of the series reserve fund to the other series reserve funds has been allocated to each series.

Pursuant to section 3 (3) of the Order on the Presentation of Series Accounts by Mortgage Credit Institutions, the Danish Financial Supervisory Authority has approved that administrative expenses, etc. are allocated to individual associations using a distribution scale where the number of loans in the association is weighted at 3, and the principal of the loans is weighted at 1. The same distribution scale has been applied for additional allocations to the individual series/series reserve funds. However, allocation to series in pre-1972 associations is made in accordance with the by-laws, etc. of these associations.

| 2 Profits in series accounts | Amounts in DKK million | 1998 |
|--|------------------------|------------------------|
| The profits of the series accounts can be reconciled to the annual accounts of Realkredit Danmark A/S as follows: | | |
| Net profit as per the annual accounts | | 1,335.2 |
| Shares in reserve funds subject to a reimbursement obligation, net, charged to the profit and loss account | | 156.0 |
| Profits in series accounts | | <u>1,491.2</u> |
| 3 Equity capital in series accounts | | |
| The equity capital of the series accounts can be reconciled to the annual accounts of Realkredit Danmark A/S as follows: | | |
| Equity capital as per the annual accounts | | 15,309.2 |
| Reserves subject to a reimbursement obligation in pre-1972 series | | 1,271.4 |
| Equity capital in series accounts | | <u>16,580.6</u> |

Executive Board

Copenhagen, 1 March 1999

Kjeld Jørgensen

Chairman of the Executive Board and
Chief Executive Officer

Sven Holm

Vice-chairman of the Executive Board and
Deputy Chief Executive Officer

Per Helle

Member of the Executive Board

/Lars Damgaard Sørensen

Director

Supervisory Board

Copenhagen, 1 March 1999

Jørgen Nue Møller

Chairman

Bent Flyvholm

André Lublin

Peder J. Pedersen**

Poul Christiansen

Vice-Chairman

Cristina Lage Hansen

Jørgen Lund

Per Alling Toubro*

Niels Busk

Carl Emil Heidemann*

Jørgen Mejlgård

Hans-Erik Voldstedlund*

Bo Klein Christensen*

Flemming Skov Jensen

Klaus Modberg*

* Elected by the employees

** Appointed by the Ministry of Economic Affairs

Auditors' Report

Copenhagen, 1 March 1999

Internal Auditor's Report

We have audited the financial statements of the Realkredit Danmark Group and Realkredit Danmark A/S for the year 1998 presented by the Supervisory Board and the Executive Board.

Basis of opinion

Our audit was made on the basis of the Order on Audits of Financial Undertakings and Financial Groups issued by the Financial Supervisory Authority and in accordance with generally accepted auditing standards. Based on an evaluation of materiality and risk, we have, in our audit, reviewed the business procedures and tested the basis of amounts and other disclosures in the accounts.

Our audit has not resulted in any qualifications.

Opinion

In our opinion, the financial statements have been presented in accordance with the accounting provisions of Danish legislation and give a true and fair view of the group's and the parent company's assets and liabilities, financial position and the profit/loss for the year.

Arne Lenstrup

Chief Auditor

Auditors' Report

We have audited the financial statements of the Realkredit Danmark Group and Realkredit Danmark A/S for the year 1998 presented by the Supervisory Board and the Executive Board.

Basis of opinion

We have planned and conducted our audit in accordance with generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatements. Based on an evaluation of materiality and risk, we have, during the audit, tested the basis and documentation for the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting policies chosen by management and the estimates made. In addition, we have evaluated the overall adequacy of the presentation in the financial statements.

Our audit has not resulted in any qualifications.

Opinion

In our opinion, the financial statements have been presented in accordance with the accounting provisions of Danish legislation and give a true and fair view of the group's and the parent company's assets and liabilities, financial position and the profit/loss for the year.

KPMG C.Jespersen

Arne Nielsen

State Authorised
Public Accountant

Jakob Nyborg

State Authorised
Public Accountant

Deloitte & Touche

State Authorised Public Accountant

Leif Andreasen

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Election and Democratic Structure

Supervisory Board of Foreningen RealDanmark

General Meeting



The Annual General Meeting elects 6 members to the Supervisory Board.

In Realkredit Danmark, the borrowers have a controlling influence through Foreningen RealDanmark, the majority shareholder of Kapital Holding A/S.

Foreningen RealDanmark is governed by the General Meeting, an Assembly of Representatives, a Supervisory Board and an Executive Board. The General Meeting is the supreme authority, while the Supervisory Board is in charge of the overall business of the Association.

In accordance with the Articles of Association, the Supervisory Board has 15 members and 11 alternates.

At the Annual General Meeting of the Association, the borrowers elect four members to the Supervisory Board and two alternates, and holders of mortgage bonds elect two members and two alternates. The elected members must represent evenly the counties of the islands and the counties of Jutland in relation to their permanent address. Borrowers and holders of mortgage bonds have only one vote, irrespective of the size of their loans, the number of mortgaged properties owned and the size of their bond holdings.

Each autumn, regional election meetings are held in the four election regions of Foreningen RealDanmark – Region East, Region Central Jutland, Region North and Region South. At these meetings, the borrowers elect 144 members to the Assembly of Representatives, who must all be borrowers.

Persons entitled to attend the general meetings or regional election meetings may vote by proxy. Proxies must be eligible to attend and vote at the meeting.

Assembly of Representative



Four regional election meetings elect 144 borrowers to an Assembly of Representatives, which elects 4 members to the Supervisory Board.

The Assembly of Representatives elects four members to the Supervisory Board and two alternates from among its own number. These positions must also be evenly distributed geographically.

In addition to the above, the employees elect five members to the Supervisory Board and five alternates. This brings the total number of members of the Supervisory Board to fifteen, eight of whom are representatives of RD's borrowers.

The election period for the members of the Supervisory Board is three years, while alternates are elected for terms of one year. Employee representatives are elected for terms of four years.

The Supervisory Board of Realkredit Danmark A/S consists of the same persons as those on the Supervisory Board of Foreningen RealDanmark; additionally, the Supervisory Board of Realkredit Danmark A/S has a publicly appointed member.

Staff



The staff elect five members to the Supervisory Board.

In Realkredit Danmark A/S, there are, moreover, 24 local councils to provide contact and inspiration to RD's management. Further, there are five committees of specialists within the segments: private residential property, agricultural property, subsidised residential property, skilled trades, industrial and commercial property and urban renewal. The members of the local councils and specialist committees are appointed by the Supervisory Board and the Executive Board, respectively.